CANADA LIFE FINANCIAL

CANADA LIFE FINANCIAL CORPORATION

1999 Annual Report

Power. Strength. Growth.

Diversity is the wellspring of all these.

Diversity in people. In product. And in the places where we do business.

From Birmingham, Alabama, to Birmingham, England, people need wealth management and financial protection. What makes them choose Canada Life is our profound understanding of local markets. In Canada, the United Kingdom, the United States and Ireland we're translating needs into products. We're developing the unique talents of our people. And we're acquiring and partnering with complementary businesses. All in the name of growth ... through diversity.

FIRST ANNUAL REPORT TO SHAREHOLDERS

GROWTH THROUGH DIVERSITY

Financial Highlights *(in millions of Canadian dollars)*

As at and for the year ended December 31	1999	1998[1]	% Change
	$	$	
OPERATIONS			
Premiums			
General Fund			
Participating insurance and annuities	833	778	7
Non-participating:			
Annuities	1,584	1,491	6
Individual life and health insurance	808	663	22
Group life and health insurance	1,277	927	38
Reinsurance	202	-	-
General insurance	117	121	(3)
	4,821	3,980	21
Segregated Funds	2,737	2,118	29
	7,558	6,098	24
Fee income	393	331	19
Net income before goodwill expense	358	150	139
Net income	320	88	264
Net income:			
Net income prior to demutualization [2]	249	88	183
Net income subsequent to demutualization attributable to [2]:			
Participating policyholders	(1)	-	-
Shareholders	72	-	-
	320	88	264
Return on shareholders' equity [3] [4]	11.6%	3.4%	
Earnings per share subsequent to demutualization excluding goodwill expense	0.56	-	-
Earnings per share subsequent to demutualization	0.46	-	-
Pro forma earnings per share excluding goodwill expense [3]	2.24	-	-
Pro forma earnings per share [3]	2.00	-	-
Book value per share	17.64	-	-
FINANCIAL POSITION			
Assets under administration			
General Fund	30,728	26,284	17
Segregated Funds	21,875	18,672	17
	52,603	44,956	17
Other assets under administration [5]	2,526	2,437	4
	55,129	47,393	16
Equity			
Policyholders' surplus	-	2,694	-
Participating policyholders' surplus	47	-	-
Shareholders' equity	2,830	-	-
	2,877	2,694	7
MCCSR ratio	190%	212%	
BUSINESS STATISTICS			
Life insurance in force — sum assured	370,308	301,127	23
Annuities in force — actuarial liabilities			
General Fund	14,496	13,471	8
Segregated Funds	15,785	13,165	20
	30,281	26,636	14

Note:

(1) The 1998 comparative figures have been reclassified, where appropriate, to conform to the presentation adopted in 1999.

(2) The Company demutualized on November 4, 1999, and consequently net income is reported as a mutual company for the period from January 1, 1999, to November 4, 1999, and as a public stock company from November 5, 1999, to December 31, 1999.

(3) Return on shareholders' equity and pro forma earnings per share have been calculated assuming the Company was public, and that all shares issued during 1999 were outstanding, on January 1, 1999.

(4) As a mutual company the return on policyholders' equity in 1998 was 3.4%, which includes provisions of $182 million after tax for two industry-wide issues in the United Kingdom. Before these provisions, net income would have been $270 million for the year ended December 31, 1998, and return on policyholders' equity would have been 10.0% for the year ended December 31, 1998.

(5) The 1998 comparative figure includes 100% of the third party assets managed by INDAGO Capital Management Inc., in which the Company owned a 50% equity interest. In 1999, INDAGO Capital Management Inc. merged with Laketon Investment Management Ltd. under the Laketon Investment Management Ltd. name. The 1999 figure includes 35% of the third party assets managed by Laketon Investment Management Ltd., which represents the Company's equity interest in the newly merged entity.

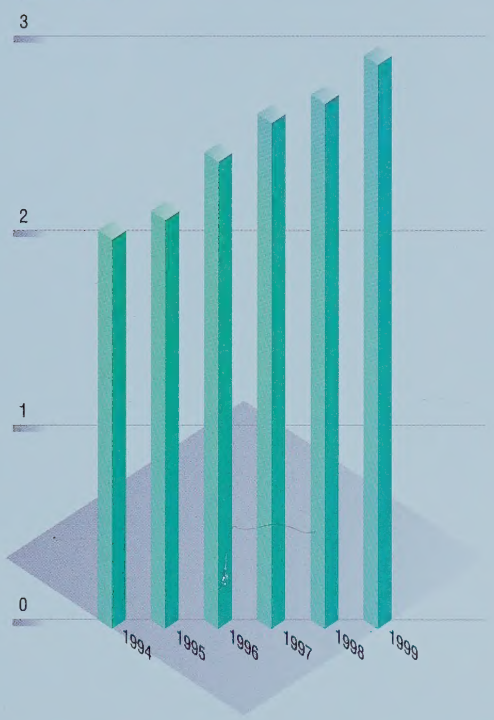
RATINGS:*

Claims Paying:	Duff & Phelps	AA+
Financial Strength:	Moody's Investors Service	Aa3
	Standard & Poor's	AA+**
	A.M. Best Company	A+

* *All ratings apply to Canada Life Financial Corporation's wholly-owned subsidiary, The Canada Life Assurance Company.*
** *Negative outlook*

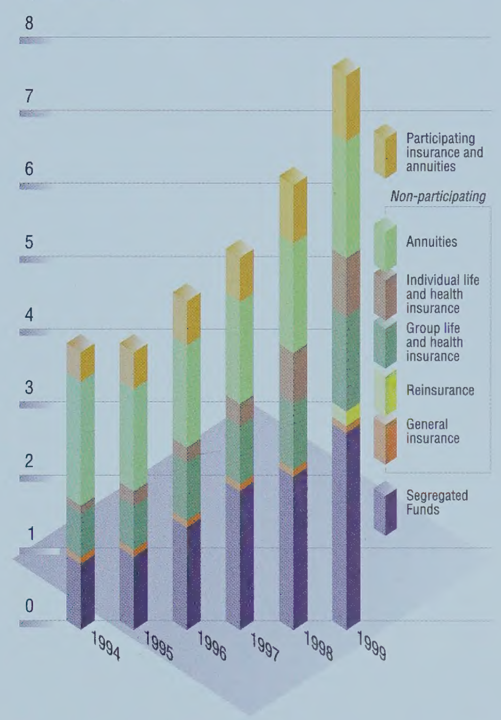
Policyholders' and Shareholders' Equity

($ billions)



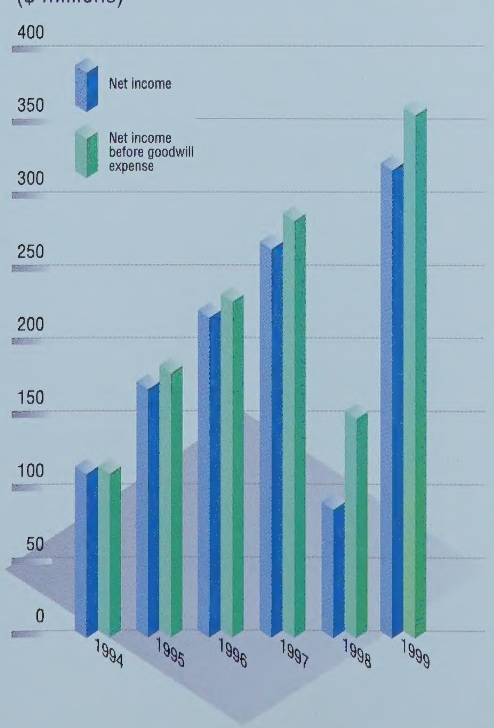
Premiums

($ billions)



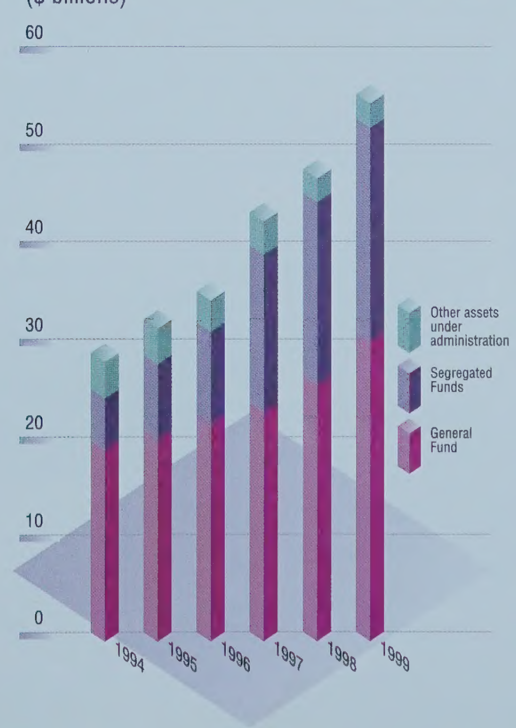
Net Income

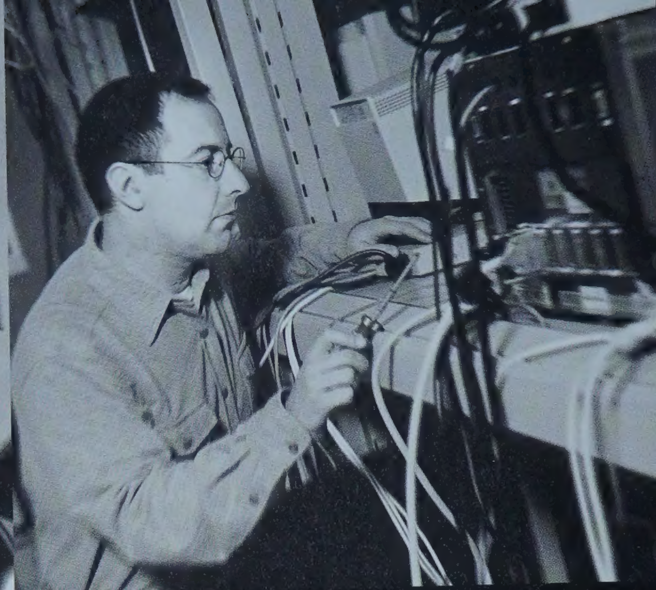
($ millions)



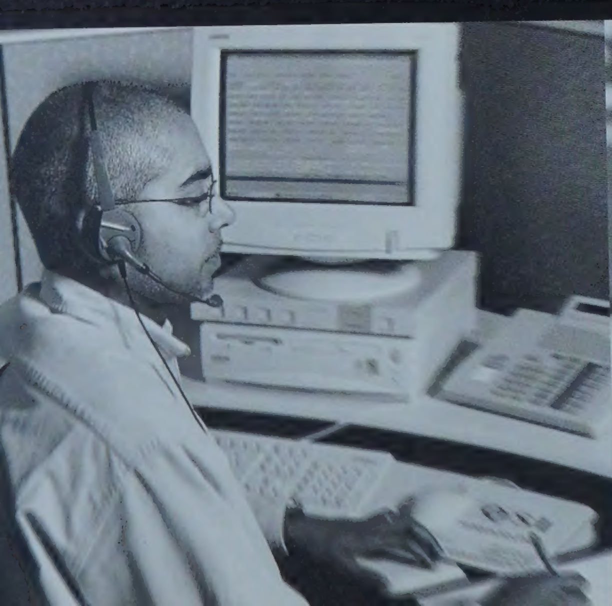
Total Assets Under Administration

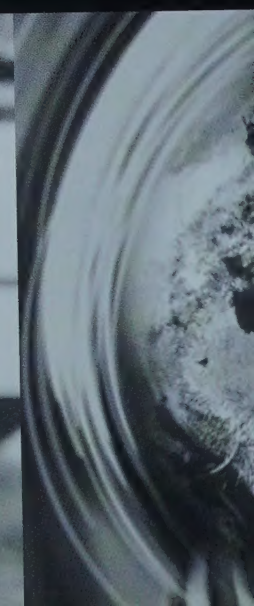
($ billions)

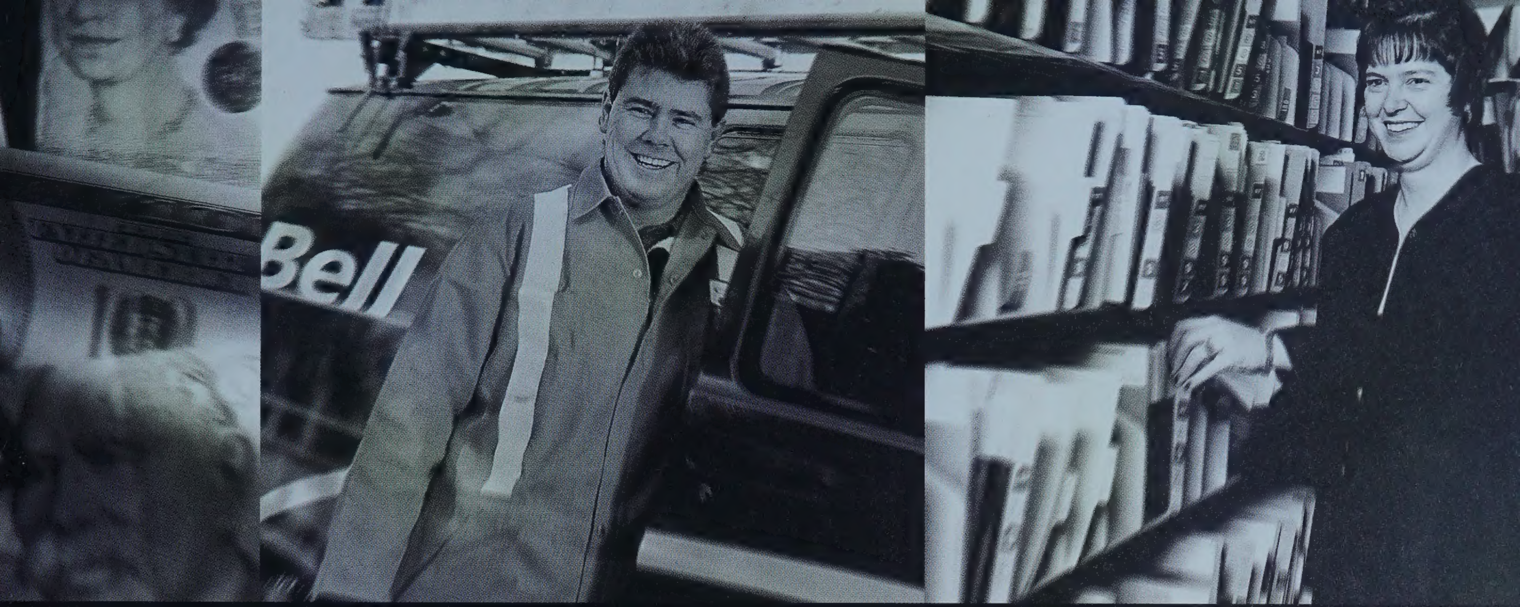



Growth Through Diversity






Bell


STAR

Dear shareholders,

Nineteen ninety-nine was an historic year that brought significant change and opportunity. It was a year marked by continued industry consolidation and the restructuring of major Canadian mutual life insurance companies. At Canada Life, we demutualized and are entering the new millennium as a public company.

Nineteen ninety-nine was an exciting year. We began on a high note as we acquired and began integrating the Crown Life business, bringing to 11 the number of our acquisitions or joint ventures in seven years. We continued our momentum as we completed our Year 2000 information systems testing in excellent time. And we ended the year with a successful share offering following the support our policyholders gave our proposal to demutualize. I want to thank our policyholders for their overwhelming endorsement of that proposal, and their strong vote of confidence in our future as a public company.

Nineteen ninety-nine was a strong year financially. Net income for the year was $320 million, an increase of $50 million — or 19 per cent — over last year's results, after adjusting for specific U.K. provisions established in 1998. General and Segregated Fund premiums for the year increased by 24 per cent over 1998. Pro forma earnings per share, assuming the company was public for all of 1999, were $2.00. Using the same assumption, return on shareholders' equity was 11.6 per cent.

Over the past three years, total General and Segregated Fund premiums have increased at an annual compound growth rate of 19 per cent. Net income has increased almost as rapidly, to $320 million on a normalized basis, representing compound growth of 13.5 per cent annually. Total assets under administration have grown to more than $55 billion in 1999, with a compound growth rate of more than 16 per cent annually over the past three years.

Nineteen ninety-nine was a year in which our employees demonstrated their determination and quality by successfully completing our demutualization, handling acquisition integration in the United Kingdom, the United States and Canada, launching an asset management company in Ireland, completing Year 2000 preparations in all those jurisdictions and, at the same time, growing our business.

In preparation for the opportunities and challenges that we believe the next century will bring us, we completed a review of our strategic plan that we began in the spring of 1999. Our strategy focuses on meeting the protection and wealth management needs of our customers, providing quality service through multiple distribution channels suitable for each market, developing new products and services, and continuing to invest in technology and our people.

Customers in our multiple global markets have different needs. A key element in our strategy is diversification. Supported by Canada Life's financial strength, experience in investment management and financial controls, we believe that our local market focus allows us to identify customer needs and market opportunities and implement plans that maximize profitable growth.

Our diversification by geography means we are not dependent on the vagaries of any one market, regulatory or tax environment, and means that we can deploy our capital flexibly to obtain the highest return.

Diversification by geography is evidenced by our significant operations in Canada, the United Kingdom, the United States and Ireland. More than 50 per cent of our company's net income comes from outside Canada. Beyond our established markets, Canada Life is committed to the Brazilian market through a joint venture initiated there in 1999, and plans to leverage its Irish strength and Ireland's membership in the European Union to begin marketing products in Germany during the year 2000. We have business interests in Hong Kong, Macau, the Bahamas, Bermuda, Cuba, the Cayman Islands, and several U.S. territories, as a result of the recent Crown Life acquisition. Our representative office in Beijing has been in place since 1998, and we are encouraged that new privatization legislation in India will allow our joint venture with Centurion Bank to come to fruition.

Acquisition and the establishment of joint ventures have been important elements of our strategy. Through these, we have welcomed new talent to the Canada Life team, expanded product lines and geographic markets, enhanced distribution systems and reduced operating costs appreciably.

Our overall goal is to achieve and maintain profitable growth as a diversified international protection and wealth management company with satisfied customers and committed employees, resulting in shareholder value.

In Canada, we experienced another year of tremendous organizational change with the Crown Life integration and the transition of our career sales agent force to an independent sales force. We have also increased our focus on small group customers, one of the fastest-growing segments in Canadian business. On the wealth management side, we continued to enhance and refine our product line and leverage advances in technology by providing our group customers with full Internet access. We also became the first Canadian property and casualty insurer to offer on-line quoting and issuing.

In the United States, our management team has redefined its focus on businesses with strong competitive positioning — Group Life & Health and Individual Life. In both business areas, we introduced new administration information systems that will allow us to reduce expenses, enhance customer service and bring products to market more quickly. We also met the challenge of taking over the administration of the Crown Life U.S. block of business. During 1999, the division added key staff in a number of areas, which strengthened and broadened our skills and the knowledge of our team.

In the United Kingdom, we continued to achieve great success with our single premium and offshore investment products. Wealth management and the overall provision of retirement income are major areas of focus for us in this jurisdiction. On the Group Life & Health side, we steadily increased our overall market share.

In Ireland, given our strong domestic position, we will drive additional performance and growth by developing our wealth accumulation and risk management businesses. The 1999 launch of a new

asset management company — Setanta Asset Management Limited — was a highlight in this strategy. This initiative, along with new systems software, allows the Irish Division, for the first time, to offer investment management services to third parties as well as to manage in-house funds. In addition, we believe that existing core competencies leave us well-positioned for further growth in the risk management area, particularly in the term life and critical illness markets.

As I said at the outset, Canada Life is committed to creating value for customers and shareholders. There will be challenges ahead; there always are. The emergence of new competitors, continued consolidation, changes in regulatory environments (such as in the United Kingdom with respect to pension products) and maintaining the balance between maximizing financial results and investing in new products and markets, are examples.

I have said that strategies do not implement themselves, people implement them. To meet the challenges ahead, we have a strong focus on developing and recruiting people to create a talented management team of professionals who understand how to compete effectively as a diversified and decentralized company. Working with them are dedicated employees who share a deepening understanding of what it means to be a customer-driven enterprise.

It is our financial strength and the sharp focus of the individuals who work for Canada Life that make me extremely optimistic about our future. As I see it, 2000 will be a very successful year for Canada Life as we roll out new products, explore new ways of distributing them and deliver exceptional service to customers worldwide. As one century ends and another begins, I want to extend my sincere thanks to both current Canada Life people and those who have gone before us. Together, we have positioned Canada Life well for the 21st century.

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David A. Nield
Chairman of the Board,
President and Chief Executive Officer

Operations

Canada Life is a diversified international life insurance company offering a wide range of protection and wealth management products to approximately ten million customers — individuals and groups — in Canada, the United States, the United Kingdom, Ireland and several other foreign locations.

Operations at a Glance

Through its wholly owned subsidiary, The Canada Life Assurance Company, the Company serves approximately ten million people under individual and group contracts in Canada, the United States ("U.S."), the United Kingdom ("U.K."), the Republic of Ireland ("Ireland"), and in several other jurisdictions, including Hong Kong, Macau, Bermuda, Bahamas and Brazil, through branch operations and/or subsidiary companies. Our core business is to offer products and services to meet our clients' needs for:

- accumulation of assets in the form of annuity, pension and investment products;
- financial and investment management; and
- financial protection in the event of certain risks including life, medical, dental, disability and general insurance.

	CANADA	UNITED STATES	UNITED KINGDOM	REPUBLIC OF IRELAND	INTERNATIONAL & REINSURANCE
PRINCIPAL OFFICES	Toronto, Ontario Regina, Saskatchewan	Atlanta, Georgia	Potters Bar, Hertfordshire	Blackrock, Dublin	Toronto, Ontario Regina, Saskatchewan
OPERATING LOCATIONS	In all 10 provinces: 6 individual marketing centres 13 group sales offices 3 regional group claims and services offices 3 regional general insurance offices	In all 50 states and the District of Columbia: 22 regional sales offices 21 group offices	Throughout the U.K.: 24 business centres 3 regional sales offices 3 group sales offices	Throughout Ireland: 6 regional offices 8 branch offices	In the following countries: United States (including Puerto Rico, Virgin Islands, Guam and American Samoa) Brazil Hong Kong Macau Bermuda Bahamas Cayman Islands
DISTRIBUTION CHANNELS	Independent brokers, consulting firms, financial institutions, stockbrokers and Internet	Independent agent field force and brokers	Direct sales consultants and independent financial advisors (IFA's)	Financial consultants and brokers	Reinsurance directly through sales representatives in the United States, international brokers and general agents
PRODUCTS & SERVICES	Annuities and pensions Life, health, disability and dental insurance Group creditor life and disability insurance General insurance (personal lines including automobile, recreational vehicle, motorcycle and property insurance) Segregated Funds Investment management services	Individual life and critical illness insurance Group life, disability, dental, stop loss and critical illness insurance Fixed and variable annuities and pensions	Annuities and pensions Investment and savings Life, health and disability insurance Unit trusts and Individual Savings Accounts (ISA's) Unit-linked life insurance and pensions	Annuities and pensions Investment and savings Life, health and disability insurance Unit-linked life insurance and pensions	Direct reinsurance and retrocession of life, disability, health and accident insurance as well as financial reinsurance Annuities and pensions Investments and savings Life, health and disability insurance
OPERATING SUBSIDIARIES	Canada Life Casualty Insurance Company *General insurance* Adason Properties Limited *Real estate management* Canada Life Mortgage Services Ltd. *Mortgage origination and services* Laketon Investment Management Ltd. *Investment management services (35% ownership*)* Sherway Centre Limited *Retail and commercial properties* Canada Life Financial Distribution Inc. *Distribution of insurance products in Quebec* Kanetix Ltd. *An e-commerce company*	Canada Life Insurance Company of New York *Insurance and annuities* Canada Life Insurance Company of America *Variable annuities*	Canada Life Limited *Unit-linked life insurance and pension products* Canada Life Management (U.K.) Limited *Unit trusts and Individual Savings Accounts (ISA's)* Canada Life International Limited *Unit-linked life insurance and investment products*	Canada Life Assurance (Ireland) Limited *Insurance and annuities* *Unit-linked life insurance and pension products* Setanta Asset Management Limited *Investment management services*	Canada Life of Brasil Ltda. Canada Life Pactual Previdéncia é Seguros S.A. (Brazil)

** In March 1999, INDAGO Capital Management Inc., in which the Company held a 50% equity interest, merged with Laketon Investment Management Ltd. under the Laketon Investment Management Ltd. name. The Company holds a 35% equity interest in the merged company.*

Canada Life's core markets are Canada, the United Kingdom, the United States and Ireland. We bring our financial strength and investment management experience to bear in each of these markets, where we tailor our strategies to deliver unique solutions for geographically diverse needs.

Places

Core Markets and Developing Markets

We have business interests in Hong Kong, Macau, the Bahamas, Bermuda, Cuba, the Cayman Islands, and several U.S. territories, as a result of the recent Crown Life acquisition. Our representative office in Beijing has been in place since 1998 and we are encouraged that new privatization legislation in India will allow our joint venture with India's Centurion Bank to come to fruition.


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100

Choice equals power. We offer our customers — individuals and groups — greater choice and flexibility with our broad range of insurance and investment products. That's power.

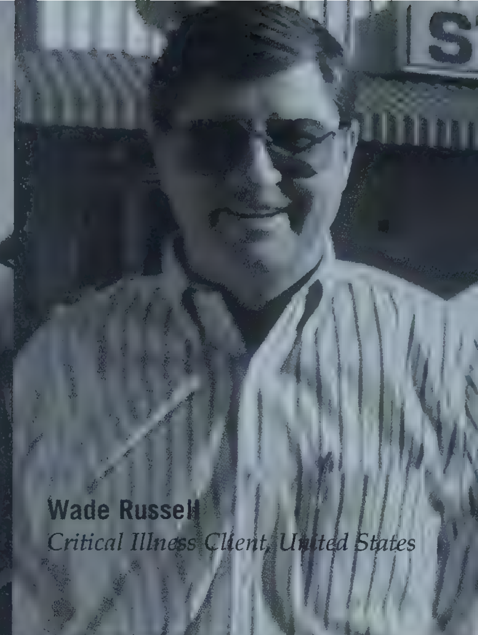
Products

Insurance and Investments

Our products include life, disability, critical illness, dental, creditor and supplemental medical insurance, as well as annuities, segregated funds, unit trusts and home and auto insurance. They are distributed by a multi-channel network of independent and career agents, insurance brokers, independent financial advisors, consulting firms, stockbrokers, financial institutions and e-commerce.

Arland Stave
Canada Life, Canada

Jane Burbage
Canada Life, Canada



Wade Russell
Critical Illness Client, United States

Richard Caffrey
Canada Life, Republic of Ireland

Darryl Waghorne
Canada Life, Canada

Bell Canada's **John Dev**
Group Savings Client, Can

Rosalie Hinrichsen
Canada Life, Canada

Stephanie Abberley
Canada Life, United Kingdom

Angela Lam
Canada Life, Canada

At Canada Life, a strong and experienced management team leads high-energy employees, working smart to serve our customers worldwide. We know achieving our goals and meeting our customers' expectations depend on strong leaders positioned in critical jobs throughout our company.

People

Customers and Employees

From the front lines to our executive offices, our people are self-disciplined, passionate about their work and continuously focused on improvement. Through leadership training and recruiting, we ensure that talented individuals continue to power Canada Life's success.

We partner. We acquire. We integrate. We take the best from two worlds and make them one. After 11 acquisitions in seven years, Canada Life has developed another core strength: We know how to merge two cultures, two places and two businesses. We achieve economies that make it easier to do business in a changing world. We take a disciplined approach to increasing our distribution capacity and building market share.

Partnership

Acquisition and Integration

Through acquisitions we are building our company. We are also strengthening our competitive position in each of our four principal markets and laying the foundation for success in new markets.

Performance

This section of the Annual Report provides management with the opportunity to discuss the financial performance of the Company for the year ended December 31, 1999, and to give a general indication of the Company's focus and direction for the future.

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management's discussion & analysis

This section of the Annual Report provides management with the opportunity to discuss the financial performance and the financial condition of Canada Life Financial Corporation ("the Company") for the year ended December 31, 1999 and to give some general indication of the Company's expectations for future performance. This report may contain forward-looking information about strategies and expected financial results. A large variety of factors, all difficult to predict, and many beyond the Company's control, could cause the Company's actual results to differ materially from results that are projected in the forward-looking statements. These factors include, but are not limited to, legislative or regulatory changes, industry competition, global capital market activity affecting the value of the Company's investments, and general economic and financial conditions. Accordingly, the reader is cautioned against undue reliance on these forward-looking statements.

This section also describes the policies and procedures used for managing the financial risks related to its activities. The analysis is based on the Consolidated Financial Statements of the Company. All dollar amounts are in millions of Canadian dollars unless otherwise stated.

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Overview

As at and for the year ended December 31	1999	1998[1]	% Change
	$	$	
Premiums			
General Fund	**4,821**	3,980	21
Segregated Funds [2]	**2,737**	2,118	29
Total General Fund and Segregated Funds	**7,558**	6,098	24
Assets			
General Fund	**30,728**	26,284	17
Segregated Funds [2]	**21,875**	18,672	17
Total General Fund and Segregated Funds	**52,603**	44,956	17
General Fund Operating Results			
Revenues			
Premium income	**4,821**	3,980	21
Net investment income	**2,327**	1,964	18
Fee income	**393**	331	19
	7,541	6,275	20
Expenditures			
Payments to policyholders and beneficiaries	**4,750**	4,002	19
Increase in actuarial liabilities	**1,133**	1,061	7
Commissions	**344**	244	41
General expenses	**723**	690	5
Premium taxes	**57**	44	30
Interest expense	**42**	24	75
	7,049	6,065	16
Net income before income taxes and goodwill expense	**492**	210	134
Income taxes	**134**	60	123
Net income before goodwill expense	**358**	150	139
Goodwill expense	**38**	62	(39)
Net income	**320**	88	264
Net income:			
Net income prior to demutualization	**249**	88	183
Net income (loss) subsequent to demutualization attributable to:			
Participating policyholders	**(1)**	-	-
Shareholders	**72**	-	-
	320	88	264
Pro forma earnings per share excluding goodwill expense [3]	**2.24**	-	-
Pro forma earnings per share [3]	**2.00**	-	-
Equity:			
Policyholders' equity	**-**	2,694	-
Participating policyholders' equity	**47**	-	-
Shareholders' equity	**2,830**	-	-
Return on shareholders' equity [3] [4]	**11.6%**	3.4%	
MCCSR ratio	**190%**	212%	

[1] *The 1998 comparative figures have been reclassified, where appropriate, to conform to the presentation adopted in 1999.*

[2] *Refer to Financial Position – Segregated Fund Assets for a description of the Company's Segregated Funds.*

[3] *For purposes of calculating return on shareholders' equity and pro forma earnings per share, the demutualization is assumed to have occurred on January 1, 1999. Pro forma net income attributable to shareholders was calculated to have been $321 million in 1999, consisting of $249 million of pre-demutualization earnings plus $72 million of shareholders' earnings, post-demutualization. It was assumed that the common shares outstanding at December 31, 1999 were issued on January 1, 1999.*

[4] *As a mutual company, return on policyholders' equity in 1998 was 3.4%, which includes provisions of $182 million after tax for two industry-wide issues in the United Kingdom as described under Financial Performance by Operating Division – United Kingdom Division. Before these provisions, net income would have been $270 million for the year-ended December 31, 1998 and return on policyholders' equity would have been 10.0% for the year-ended December 31, 1998.*

1999 Highlights

The Company generated strong growth in net income, premiums and assets in 1999, establishing record amounts in each category. Net income for the year was $320 million, a substantial increase over the net income reported in 1998 of $88 million. After adjusting for special provisions established in the U.K. in 1998, net income increased $50 million or 19% over 1998. Total premiums for General Fund and Segregated Funds increased by 24% to $7,558 million and assets increased by 17% to $52.6 billion.

The two most significant events affecting the Company in 1999 were the demutualization of The Canada Life Assurance Company ("Canada Life") on November 4, 1999 and the acquisition of the Crown Life Insurance Company ("Crown Life") operations effective January 1, 1999.

As a result of the demutualization, net income for 1999 has been reported as a mutual company for the period from January 1, 1999 to November 4, 1999 and as a public stock company from November 5, 1999 to December 31, 1999. For 1999, net income prior to demutualization was $249 million and subsequent to the conversion to a public stock company, net income attributable to shareholders was $72 million and the net loss attributable to participating policyholders was $1 million.

Assuming the Company was a public stock company on January 1, 1999 and that the 160,388,287 common shares issued during the year were outstanding from January 1, 1999, pro forma net income attributable to common shareholders would have been $321 million or pro forma earnings per share of $2.00. Similarly, pro forma net income excluding goodwill expense would have been $359 million or $2.24 per share. Using these same assumptions, return on shareholders' equity would have been 11.6% for the year. This compares to a return on policyholders' equity of 3.4% for 1998, or excluding the special U.K. provisions taken in 1998, a return on policyholders' equity of 10.0%.

The 19% increase in net income this year was partly due to the acquisition of Crown Life in 1999, which added approximately $22 million to net income after integration costs of $15 million after-tax and goodwill expense of $4 million. Other factors, impacting net income included generally favourable mortality and morbidity results, improved expense performance and a strong economic environment.

DEMUTUALIZATION

Canada Life became a stock life insurance company on November 4, 1999. It did so primarily to give it increased access to capital markets thereby increasing its flexibility to operate in today's changing competitive environment. In recent years, there have been many changes in the financial services industry including:

- consolidation in the financial services industry as insurance companies are merging with and buying other insurance companies resulting in a smaller number of larger and stronger companies;
- increased competition between life insurance companies and other financial institutions which increases the need for insurance companies to offer new products to compete effectively; and
- the demutualization, or the plan to demutualize, of the other large mutual life insurance companies in Canada, to access capital markets for further growth.

Any company needs to grow and develop new products and processes to remain competitive. Growth can come from buying other companies or by expanding internally. Access to capital to achieve this growth is very important. As a mutual company, Canada Life had a limited ability to raise capital since its capital came primarily from net income which accumulates over time. Regulatory restrictions on capital have limited Canada Life's ability to expand its business or to make acquisitions it might otherwise have considered. Demutualization will also provide the access to capital required to develop and offer new products and services, as well as to invest in new technologies.

At the date of demutualization, Canada Life became a wholly owned subsidiary of the Company by issuing all of its common shares to the Company.

As part of demutualization, eligible policyholders of Canada Life received common shares issued by the Company from treasury, received cash or were granted policy credits. Eligible policyholders included all voting policyholders of Canada Life on the eligibility date of April 2, 1998. The policy benefits, premiums, policy dividends and other non-guaranteed benefits were not adversely affected by demutualization. The demutualization benefits received by eligible policyholders in exchange for their ownership rights and interests were in addition to the contractual benefits received as eligible policyholders.

The Company also issued common shares from treasury in an initial public offering to fund payments to policyholders and to help pay for the costs of demutualization.

In addition, the Company established a shareholders' account and restructured the participating account of Canada Life into three separate sub-accounts. The demutualization is described more fully in notes 2, 13 and 14 to the Consolidated Financial Statements.

CROWN LIFE ACQUISITION

Effective January 1, 1999, Canada Life acquired through purchase or reinsurance, the majority of Crown Life's worldwide insurance business as described in note 6 to the Consolidated Financial Statements.

The Crown Life acquisition significantly increased the Company's Canadian and U.S. operations and its presence in Western Canada. It has also offered the Company new opportunities by giving it entry into the reinsurance business as well as new markets in other international locations in which the Company did not operate previously.

A major focus during 1999 was the integration of the Crown Life operations with that of Canada Life's operations in Canada and the U.S. This involved the consolidation of some branch offices, the addition of a Western Canadian Headquarters in Regina, Saskatchewan and the rationalization of computer systems. This integration activity is on target and is expected to be substantially completed by the end of 2000.

Canada Life paid $163 million in cash to Crown Life with respect to the acquisition. This transaction increased the Company's total assets and liabilities under administration by approximately $5.5 billion, consisting of General Fund assets of $4.7 billion and Segregated Fund assets of $0.8 billion as at January 1, 1999. In 1999 premiums increased by approximately $829 million due to the Crown Life acquisition, consisting of $748 million of General Fund premiums and $81 million of Segregated Fund premiums. Additionally, the Crown Life acquisition contributed approximately $22 million to net income in 1999, after integration costs of $15 million after-tax and goodwill expense of $4 million. Management believes net income associated with the acquired Crown Life operations will increase in each of the next two years, as the integration of these operations is completed. A detailed discussion of the changes in revenues and expenditures due to this acquisition has been included in the Analysis of Operations below, as well as the Financial Performance by Operating Division.

Analysis of Operations

GENERAL FUND AND SEGREGATED FUNDS REPORTING

In each of its principal markets, the Company offers products on both a General Fund and Segregated Fund basis. General Fund and Segregated Fund products are treated differently in the Company's Consolidated Financial Statements.

The financial risks associated with General Fund products are in general borne by the Company. As a result, premiums received on General Fund products, as well

as investment income earned on assets supporting General Fund products, are reflected as revenues in the Company's Consolidated Statement of Net Income, while payments to policyholders and beneficiaries, and increases in actuarial liabilities in respect of such products are reflected as expenditures. Generally, net income from General Fund products is generated from the excess, if any, of premiums and net investment income earned on assets purchased with those premiums, over amounts in respect of policy benefits and other expenses. By contrast, Segregated Fund products are supported by assets which are separate from, and not available to satisfy the liabilities of, the General Fund. The return to policyholders on Segregated Fund products varies depending on the performance of the assets in the applicable Segregated Fund. Accordingly, Segregated Fund premiums, investment income, payments to policyholders (subject to the possible effect of any guarantees) and certain other expenditures are not reported in the Company's Consolidated Statement of Net Income. The Company earns fee income for managing Segregated Fund assets, which is reported in the Company's Consolidated Statement of Net Income.

Notwithstanding the differences in financial reporting, in many cases General Fund and Segregated Fund products are alternatives offered by the Company to the same potential customers through the same distribution channels. The Company's relative mix of sales of General Fund and Segregated Fund products may vary depending in part on prevailing interest rates and stock market performance.

IMPACT OF FOREIGN EXCHANGE RATES

The Company's Consolidated Financial Statements are reported in Canadian dollars. As a multinational company operating in various foreign jurisdictions, the Company is impacted by changes in foreign exchange rates against the Canadian dollar. In 1999, the Canadian dollar strengthened significantly against the three major currencies in which the Company operates and has negatively impacted reported net income and asset growth rates from the Company's foreign operations as compared to 1998 levels. Net income was $7 million lower and total assets were $2.4 billion lower ($1.1 billion for the General Fund and $1.3 billion for the Segregated Funds) than they would have been had exchange rates remained at 1998 levels. The translation rates for assets, liabilities, revenues and expenditures are shown below.

ANALYSIS OF REVENUES

General Fund revenues increased by $1,266 million or 20% over 1998.

PREMIUM INCOME

Premium income represents the amounts collected from policyholders with respect to the Company's protection and wealth management products. For many of these products, an increase in premiums will not necessarily result in a corresponding increase in net income for that same period because actuarial liabilities, including any applicable margins, will be established to provide for future benefits, at the time the premium is received. Net income will be recognized over the life of the product as experience permits.

IMPACT OF FOREIGN EXCHANGE RATES	Assets and Liabilities			Revenues and Expenditures		
	1999	1998	% change	1999	1998	% change
U.S. dollar	$1.44	$1.53	(6)	$1.49	$1.48	1
British pound	$2.33	$2.54	(8)	$2.40	$2.46	(2)
Irish pound*	$1.84	$2.28	(19)	$2.01	$2.12	(5)

** The Irish pound is a denomination of the Euro and the exchange rate is fixed at 0.787564 Euro's to the Irish pound. In general, the Irish economy continues to use the denomination of the Irish pound and is likely to continue to do so until Irish pound notes and coins are replaced with Euro notes and coins in early 2002. Therefore, for comparative purposes and to reflect current local practice, the comments in this Management's Discussion and Analysis make reference to the Irish pound rather than the Euro.*

PREMIUMS	1999	1998	% Change
	$	$	
General Fund premium income:			
Participating insurance and annuities	**833**	778	7
Non-participating:			
Annuities	**1,584**	1,491	6
Individual life and health insurance	**808**	663	22
Group life and health insurance	**1,277**	927	38
Reinsurance	**202**	-	-
General insurance	**117**	121	(3)
	4,821	3,980	21
Segregated Funds premiums	**2,737**	2,118	29
Total premiums	**7,558**	6,098	24

General Fund premium income increased by $841 million or 21% over 1998. The Crown Life acquisition added $748 million to General Fund premium income in 1999. The remaining $93 million increase came from the Company's existing blocks of business. This increase was largely attributable to general growth in group life and health insurance in Canada and the U.K., increased sales of individual life and health insurance in Ireland, an increase in sales of individual annuities in the U.K. and the U.S., and the transfer of a portion of deposit administration business in the U.K. from the Segregated Funds to the General Fund. These increases were somewhat offset by decreased sales of guaranteed investment contracts ("GIC's") and single premium individual life insurance in the U.S., and individual life and health insurance in the U.K.

Segregated Fund premiums increased by $619 million or 29% over 1998. The Crown Life acquisition added $81 million to Segregated Fund premiums, all of it in Canada. The remaining increase was mainly due to increased sales in Canada and the U.K. as a result of strong stock market performance and consumer demand for equity-based products.

NET INVESTMENT INCOME

Net investment income for the General Fund increased by $363 million or 18% over 1998 and was derived from the following sources:

NET INVESTMENT INCOME	1999	1998	% Change
	$	$	
Bonds*	**1,232**	1,042	18
Mortgages*	**597**	533	12
Common and preferred stocks*	**244**	241	1
Real estate*	**103**	82	26
Policy loans	**76**	35	117
Cash and cash equivalents, and short-term investments	**70**	39	79
Other	**55**	33	67
Total investment income	**2,377**	2,005	19
Less: investment expenses	**50**	41	22
Net investment income	**2,327**	1,964	18

* *Includes amortized gains as follows: bonds $101 million (1998 - $72 million); mortgages $10 million (1998 - $7 million); common and preferred stocks $178 million (1998 - $180 million); and real estate $20 million (1998 - $10 million). Amortized gains (losses) reflect Canadian GAAP for life insurance companies whereby realized gains (losses) on bonds and mortgages, as well as both realized and unrealized gains (losses) on stocks and real estate, are amortized into income as described in note 3(b) to the Consolidated Financial Statements.*

The acquisition of the Crown Life operations added to the Company's invested assets and investment income for 1999 as compared to 1998. However, several factors combined to dampen the investment rate of return for 1999 as compared to 1998.

In 1999, stock market performance was generally strong in most countries in which the Company operates, although these market increases were driven by specific industry groups, primarily focused on the technology sector. The TSE 300 Index in Canada achieved a 29.7% increase, a substantial rise from the previous year's decrease of 3.2%. The U.S. Standard and Poor's 500 Index grew 19.5% against a 26.7% increase in 1998. The U.K. FTSE 100 had gains of 17.8% versus a 14.5% increase the previous year. The Irish ISEQ was flat at 0.4% in 1999 against a 23.2% rise in 1998.

The Company's own stock portfolio posted reasonable results, but under-performed relative to the market indices in most jurisdictions in which the Company operates, except for Ireland. The equity holdings of the Company did not reflect the composite holdings of the various market indices. In addition, the Company's equity portfolio performance was dampened as a result of equity swaps used by the Company to hedge its North American common stock portfolio. In 1996, the Company entered into equity swaps to hedge its common stock portfolio against an anticipated drop in the performance of the North American stock markets. In 1999, the stock markets strengthened causing a loss on these hedging transactions relative to expectations. Losses related to these hedging programs reduced the returns on the Company's stock portfolio by $9.3 million and $6.5 million in Canada and the U.S., respectively. These factors together with the low interest rate environment which prevailed for most of the year, reduced the net rate of investment income earned on General Fund invested assets from 8.6% in 1998 to 8.2% for 1999.

FEE INCOME

Fee income is derived mainly from the management of the Company's Segregated Fund assets. These fees are generally based on a percentage of the market values of the assets under administration. The Company also earns fee income from the administration of unit trusts in the U.K., from investment management services provided by several subsidiary companies and from administrative services (such as claims administration) provided to employer and other groups.

Fee income increased by $62 million or 19% over 1998. The acquired Crown Life operations contributed approximately one quarter of this increase. The balance of the increase was primarily due to management fees generated on a higher level of Segregated Fund assets under administration in Canada and the U.K.

ANALYSIS OF EXPENDITURES

Total General Fund expenditures, excluding income taxes and goodwill expense, increased by $984 million or 16% over 1998.

PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES

Payments to policyholders and beneficiaries represent amounts paid out in respect of, among other things, life, health and general insurance benefits; annuity payments; maturities and surrender payments; and policyholder dividends on participating policies. When the Company makes payments to policyholders and beneficiaries, the amount of any related actuarial liability is reduced, producing an offset to such payments for net income purposes in the Company's

PAYMENTS TO POLICYHOLDERS AND BENEFICIARIES	1999	1998	% Change
	$	$	
Life, health and general benefits	**1,560**	1,065	46
Annuity payments	**1,032**	960	8
Maturities, surrender payments and other	**1,872**	1,721	9
Participating policyholder dividends	**286**	256	12
	4,750	4,002	19

Consolidated Statement of Net Income. However, there may be circumstances where payments made are not exactly offset by a reduction in actuarial liabilities.

Payments to policyholders and beneficiaries increased by $748 million or 19% over 1998. The acquired Crown Life operations accounted for $863 million of the increase. Payments to policyholders and beneficiaries on the Company's existing blocks of business decreased by $115 million from 1998. This was caused by lower levels of scheduled GIC maturities in the U.S., and Canada, and favourable group life insurance claims experience in the U.K., all of which offset any increases in payments resulting from a general growth in most lines of business.

INCREASE IN ACTUARIAL LIABILITIES

Changes in actuarial liabilities from year to year are a function of business volumes, underlying experience factors, changes in assumptions and refinements in the calculation of these liabilities. The increase in actuarial liabilities represents the net change during the period, in the amount of the Company's actuarial liabilities, which is included in determining net income.

Actuarial liabilities increased by $72 million, a 7% increase over 1998. Higher business volumes and underlying experience factors caused a $151 million increase. This was offset by a $79 million reduction relating to changes in assumptions and refinements in the calculation of these liabilities from 1998. This is explained in greater detail in note 8(a) to the Consolidated Financial Statements.

COMMISSIONS

Commissions increased by $100 million or 41% over 1998. The Crown Life business accounted for $93 million of this increase. The remainder of the increase was consistent with the increase in premium growth during the year.

GENERAL EXPENSES

General expenses increased by $33 million or 5% over 1998. The Crown Life acquisition added $114 million in integration costs and ongoing general expenses in 1999. The demutualization effort added another $15 million to general expenses. These increases were offset by a decrease in general expenses of $33 million resulting from a reduction in retiree benefit provisions in Canada and the U.S., a reduction of $27 million in integration costs on the MetLife (U.K.) operations acquired in 1997, and various other savings including lower fixed sales costs in the U.K. and guarantee fund assessment charges in the U.S. as compared to 1998.

INCOME TAXES

Income taxes increased by $74 million or 123% over 1998, as a result of higher overall net income. The effective tax rate decreased from 41% of pre-tax income in 1998 to 30% in 1999. The lower effective tax rate resulted largely from proportionately higher net income earned in those jurisdictions with lower income tax rates, particularly in the U.K.

GOODWILL EXPENSE

Goodwill expense of $38 million represented a decrease of $24 million or 39% from 1998. The reduction was mainly the result of a write-down in goodwill of $12 million in 1999 as compared to $37 million in 1998, both due to the recognition of economies of scale on the integration of the MetLife (U.K.) operations acquired in 1997. These write-downs were offset by releases of actuarial liabilities in each year as described in notes 3(j) and 8(a) to the Consolidated Financial Statements.

GOODWILL EXPENSE	**1999**	1998	% Change
	$	$	
U.K. insurance operations of the Manufacturers Life Insurance Company	**8**	8	-
MetLife (U.K.) Limited	**25**	54	(54)
Crown Life Insurance Company operations and other	**5**	-	-
	38	62	(39)

Company Outlook

The Company undertook a comprehensive strategic review in 1999 in which it critically evaluated all of its businesses. That review resulted in a continued strong commitment to diversification by geography, product and distribution system. The Company believes strongly that such diversification enhances opportunities to deploy capital to the shareholders' best advantage, thereby increasing flexibility and profitability and decreasing risk. Other significant results of the review included:

- The Company will increase its focus on wealth management businesses in Canada, the U.K. and Ireland but will decrease this focus in the U.S., where it believes it does not have, and cannot achieve, critical mass.

- The Company retains a strong commitment to providing protection products and envisions an enhanced role for such products in the U.S.

- The Company is committed to serving customers through a variety of distribution systems that reflect consumers' preferences. This approach calls for increased distribution alternatives, including utilizing, where appropriate, the Internet.

- The Company is committed to organic growth as its primary means of continued growth.

- The Company exploits its experience of successfully acquiring and integrating businesses by continuing its disciplined approach towards additional acquisitions, which will supplement and support its organic growth.

- The Company will ensure that it is deploying its capital to businesses where returns are highest; and will continue to allocate significant capital to those businesses with longer-term growth potential and to information systems upgrades.

- The Company is committed to strong earnings performance and management looks forward to continued growth in shareholders' return on equity in each of the next few years. That growth will be achieved by further improving operating efficiencies, particularly expense efficiency; but will also specifically arise from:
  - The bond yield optimization program described under Financial Position – General Fund Invested Assets.
  - The completion of the Crown Life integration and the economies of scale and earnings enhancements anticipated from that completion.
  - Corporate strategies aimed at ensuring the Company is structured appropriately from a tax and regulatory perspective.
  - Some increased leverage in its capital structure as described under Financial Position - Capital Management.

Financial Performance by Operating Division

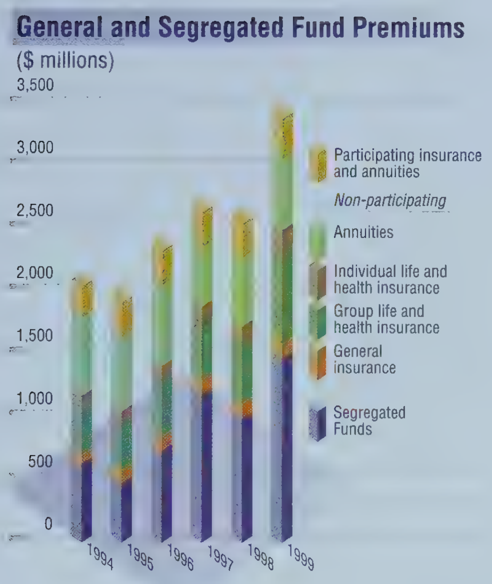
The Company conducts its business primarily through local operating divisions in Canada, the U.S., the U.K., the Republic of Ireland and, newly created in 1999, an International and Reinsurance Division. The centralization of certain key corporate functions enables the operations in all jurisdictions to benefit from the Company's extensive experience in financial, human resource and technology management, and ensures consistent policies and standards in these areas across the divisions.

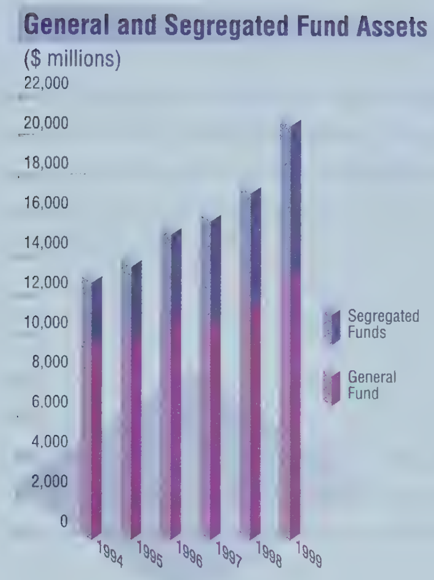
Each operating division includes subsidiary companies and/or branch operations of the Company, which offer insurance and annuity products and investment management services. Each operating division is managed, for the most part, independently from the other divisions, focusing on its own local market, with responsibility for its own product development, marketing, distribution and pricing functions. Each division is required to meet growth and expense objectives and provide an appropriate return on capital allocated to it.

Canadian Division

The Canadian Division is based in Toronto, Ontario with Western Headquarters in Regina, Saskatchewan, and regional operations in Montreal, Quebec and Halifax, Nova Scotia. The Division is organized into four distinct business units – group life and health insurance; individual life and health insurance; investments and pensions (annuities and Segregated Funds), and general (property and casualty) insurance. Across Canada, each business unit is organized into multiple profit centres, with each centre providing products designed to serve target markets, such as the small business and individual retirement and savings markets. The Division operates under the name The Canada Life Assurance Company, except for its general insurance operation, which operates through its subsidiary Canada Life Casualty Insurance Company ("Canada Life Casualty") and its e-commerce company, Kanetix.

As at and for the year ended December 31	**1999**	1998	% Change
	$	$	
GENERAL FUND			
Revenues			
Premium income:			
Participating insurance and annuities	**318**	273	16
Non-participating:			
Annuities	**571**	551	4
Individual life and health insurance	**190**	143	33
Group life and health insurance	**715**	472	51
General insurance	**117**	121	(3)
	1,911	1,560	23
Net investment income	**1,011**	904	12
Fee income	**127**	111	14
	3,049	2,575	18
Expenditures			
Payments to policyholders and beneficiaries	**2,078**	1,777	17
Increase in actuarial liabilities	**289**	266	9
Commissions	**93**	61	52
General expenses	**354**	285	24
Premium taxes	**37**	28	32
Interest expense	**38**	21	81
	2,889	2,438	18
Net income before income taxes and goodwill expense	**160**	137	17
Income taxes	**70**	64	9
Net income before goodwill expense	**90**	73	23
Goodwill expense	**2**	-	-
Net income	**88**	73	21
Net income prior to demutualization	**99**	73	36
Net income subsequent to demutualization attributable to:			
Participating policyholders	**-**	-	-
Shareholders	**(11)**	-	-
	88	73	21
Total assets	**13,175**	11,762	12
SEGREGATED FUNDS			
Premiums	**1,466**	985	49
Total assets	**7,648**	5,674	35





Net income increased by $15 million or 21% over 1998, reflecting strong growth in core operating earnings. The impact of group life and health pricing actions over the past year was positively reflected in the Division's financial results. Favourable mortality and morbidity experience in both individual and group life and health insurance was partially offset by adverse mortality experience in payout annuities. The transition of the distribution system from career agents to independent agents which began in 1998, while not entirely complete, has already resulted in lower fixed costs and higher levels of new sales during 1999. Increased general expenses related to systems rationalization costs, Crown Life integration costs and demutualization costs, were partially offset by a reduction in provisions for retiree benefit costs. The acquired Crown Life operations contributed marginally to the overall increase in net income in 1999, but this contribution was not sufficient to offset the lower level of net income on the Company's surplus assets, that was allocated to the Canadian Division in 1999. Management believes that the acquired Crown Life operations will make a positive contribution to earnings in 2000 as the integration activities are substantially completed.

Total revenues increased by $474 million or 18% over 1998.

General Fund premium income grew by $351 million or 23% over 1998. The Crown Life acquisition contributed $306 million to this increase. The remainder was due to organic growth in both group and individual life and health insurance. Segregated Fund premiums increased 49% to $1.5 billion, largely due to increased demand for equity based products.

Net investment income increased by $107 million or 12% over 1998. While the acquired Crown Life operations added to the Company's invested assets and investment income, net investment income results were somewhat dampened by the low interest rate environment that prevailed for most of 1999 and losses on equity swaps used to hedge the common stock portfolio.

Fee income increased by $16 million or 14% over 1998, primarily due to an increase in Segregated Fund assets under administration during the year as well as the added fee income contributed by the acquired Crown Life operations.

Total expenditures increased by $451 million or 18% over 1998.

Payments to policyholders increased by $301 million or 17% over 1998. The added Crown Life business caused a $358 million increase, but this was offset by a decrease of $57 million relating to the Division's existing blocks of business due to improved claims experience in individual life and general insurance and lower scheduled maturities of group and individual GIC products.

The increase in actuarial liabilities for 1999 was $23 million or 9% higher than 1998 primarily due to the impact of the Crown Life acquisition, and strengthening of actuarial liabilities for Segregated Fund annuity guarantees and non-participating individual life insurance business. The increase in actuarial liabilities was also higher in 1999 as a result of reduced GIC surrenders and maturities as compared to 1998. These increases were largely offset by releases of actuarial liabilities related to the establishment of the participating closed block sub-account at demutualization.

Commissions increased by $32 million or 52% over 1998; of which $25 million was from the added Crown Life operations. The balance of the increase was consistent with premium growth on the existing blocks of business. General expenses increased by $69 million or 24% over 1998 mainly due to $77 million in ongoing general expenses and integration costs related to the Crown Life acquisition, offset by a reduction in provisions for retiree benefit costs of $14 million (pre-tax). As previously noted, the transitioning of the distribution system has resulted in lower fixed costs. However, this reduction was more than offset by increased variable expenses, as a result of increased sales volumes, increased expenditures related to improvements made to systems and processes to enhance customer service and the Canadian Division's portion of demutualization costs.

Interest expense increased by $17 million or 81% over 1998 due to the additional $300 million of subordinated debentures issued in December 1998.

Total General Fund assets increased $1.4 billion or 12% over 1998. This increase was primarily due to the Crown Life acquisition and to a lesser extent general business growth.

Segregated Fund assets increased $2.0 billion or 35% over 1998. The Crown Life acquisition contributed $766 million of this increase as at January 1, 1999. The balance was due to significant growth in group savings business and market value increases as a result of strong equity markets, especially in the latter part of 1999.

INVESTMENTS AND PENSIONS

The Investments and Pensions operation offers immediate and deferred individual annuity savings and retirement products and a wide variety of group annuity products and services, including pension plans, annuities, group registered retirement savings plans, deferred profit sharing plans and investment management plans. For defined contribution plans and investment management plans, the Company offers both fixed and variable deferred annuity products. Through the Company's Segregated Funds, individuals and plan sponsors have access to the investment expertise of a large variety of investment managers.

Total annuity premium income of $571 million in 1999 was only slightly higher than the 1998 level of $551 million. This reflects the continued low interest rate environment and its resulting impact on consumer preference for equity based products rather than fixed income products.

Segregated Fund premiums increased by $481 million or 49% over 1998. This increase was attributable to two large group sales which added $164 million to premiums for 1999 and to general growth in both group and individual sales due to consumer preference for equity based products. Premiums from the acquired Crown Life business accounted for $81 million of the increase over 1998. During 1999, the Division implemented several initiatives to enhance service delivery and electronic capabilities for the distribution of individual Segregated Funds.

INDIVIDUAL INSURANCE

The Individual Insurance operation offers a broad range of individual life and health insurance products including participating life, term life, universal life, disability and critical illness insurance, all focusing on middle and upper income individuals.

PARTICIPATING

Premium income increased $45 million or 16% over 1998, with most of the increase coming from the addition of the Crown Life participating business in 1999. Premiums of $8 million for 1999 from new participating business declined by 5% as compared to 1998. This represented 15% of total individual insurance new premiums in 1999, down from 25% in 1998. This trend is expected to continue as the Division completes its transition to the independent distribution structure.

NON-PARTICIPATING

Premium income increased $47 million or 33% over 1998, with $44 million of the increase resulting from the addition of the Crown Life non-participating business. Strong non-participating insurance sales from existing blocks of business were attributable to increased sales from the introduction of a new preferred term insurance product, continued market leadership in critical illness products, strong universal life sales and the transition to the independent distribution structure. These increases were partly offset by normal lapse experience.

GROUP LIFE AND HEALTH INSURANCE

The Group Life and Health Insurance operation markets group life insurance and health insurance products, including creditor insurance, short and long-term disability insurance and dental and extended health care plans. The dental and extended health care plans supplement the basic medical and hospital coverage provided by government programs. These group products are provided to employee groups of all sizes, through customer focused profit centres. The reorganization into customer focused profit centres was completed in 1998 and has led to an improved market focus and tailored cost management programs that have contributed to strong results in 1999 in terms of improved new business levels, improved retention of existing clients and improved profitability.

Group life and health insurance premium income increased by $243 million or 51% over 1998. The Crown Life acquisition contributed $200 million to this increase. The balance of the increase was attributable to new business and re-pricing actions taken in 1999.

GENERAL INSURANCE

Canada Life Casualty was founded in 1986 and is one of the most experienced direct marketers of property and automobile insurance in Canada, serving more than 550 affinity groups. Canada Life Casualty has focused increasingly on developing specialty niche insurance markets, such as motorcycles and recreational vehicles.

General insurance premium income decreased by $4 million or 3% from 1998. Gross premium income increased $8 million during the year, but this was offset by an increase in reinsured premiums as a result of a new reinsurance agreement entered into in the second half of the year. Management believes that this reinsurance arrangement will enhance capital utilization and return on capital.

DIVISIONAL OUTLOOK

Management believes that the Canadian Division is well positioned to take advantage of the continued strength of the Canadian economy and growth in the Canadian savings, and life and health insurance marketplace. The Canadian Division is focused on expanding its market presence by increasing the number of independent agents who distribute the Canadian Division's products, enhancing its direct marketing capabilities (such as mail, worksite and Internet) and continuing to build joint distribution ventures with other financial institutions. In expanding its market presence, the Canadian Division will focus on wealth management products in an effort to increase its proportion of fee income. There will also be continued focus on product development to improve market share and enhance profitability.

The Canadian Division will continue to focus on enhancing the quality of service provided to its distributors, intermediaries, producers, plan sponsors, plan members and consumers. This will be achieved through enhancing operating efficiencies through improved use of technology, completing the integration of the acquired Crown Life business in Canada and enhancing internal processes which will make it easier for customers to do business with the Company.

United Kingdom Division

The Company's U.K. Division has its principal office in Potters Bar, Hertfordshire and operates through Canada Life Limited ("CLL"); formerly called the Canada Life Assurance Company of Great Britain Limited ("CLGB"). Prior to demutualization, the U.K. Division operated through a branch of Canada Life and through CLGB and Albany Life Assurance Company Limited ("Albany Life"). As part of the demutualization process, Canada Life transferred all of its U.K. branch business and all the policies of Albany Life to CLL. CLL established a participating policyholders' account with sub-accounts as described in note 13 to the Consolidated Financial Statements. Currently CLL has no intention of selling any new participating policies after demutualization and therefore did not establish a new business sub-account as part of the U.K. reorganization.

The U.K. Division also sells offshore investment products through its subsidiary, Canada Life International Limited (formerly called Albany International), located in the Isle of Man and manages unit trusts through its subsidiary, Canada Life Management (U.K.) Limited.

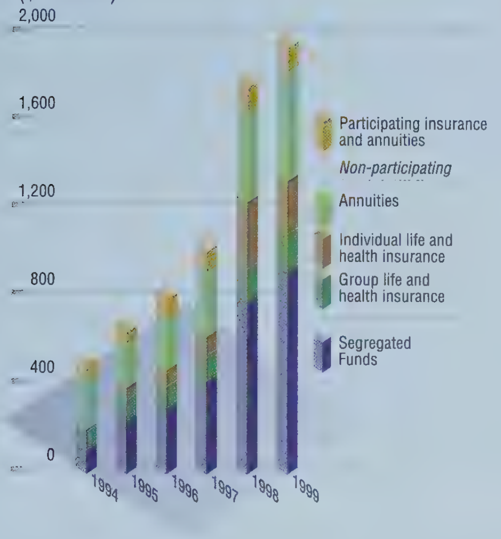
The Division is organized around its two major distribution channels, IFA's and career agents (referred to as "financial planning consultants" in the U.K.). The IFA channel is divided into group and individual sales.

As at and for the year ended December 31	1999	1998	% Change
	$	$	
GENERAL FUND			
Revenues			
Premium income:			
Participating insurance and annuities	112	111	1
Non-participating:			
Annuities	497	413	20
Individual life and health insurance	238	299	(20)
Group life and health insurance	178	156	14
	1,025	979	5
Net investment income	515	456	13
Fee income	193	156	24
	1,733	1,591	9
Expenditures			
Payments to policyholders and beneficiaries	640	705	(9)
Increase in actuarial liabilities	675	651	4
Commissions	75	67	12
General expenses	157	217	(28)
Interest expense	3	3	-
	1,550	1,643	(6)
Net income (loss) before income taxes and goodwill expense	183	(52)	-
Income taxes (recovery)	22	(37)	-
Net income (loss) before goodwill expense	161	(15)	-
Goodwill expense	33	62	(47)
Net income (loss)	128	(77)	-
Net income (loss) prior to demutualization	77	(77)	-
Net income subsequent to demutualization attributable to:			
Participating policyholders	-	-	-
Shareholders	51	-	-
	128	(77)	-
Total assets	6,428	6,061	6
SEGREGATED FUNDS			
Premiums	914	778	17
Total assets	11,453	10,379	10

For ease of comparison to the other divisions, the U.K. Division's discussion and analysis is broken down by product grouping rather than by distribution channels.

General and Segregated Fund Premiums

($ millions)



General and Segregated Fund Assets

($ millions)

Net income for 1999 was $128 million as compared to a net loss of $77 million for 1998. After adjusting for special provisions established in 1998, net income for 1999 increased by $23 million or 22% over 1998. This increase reflected significantly improved group life insurance claims experience, a reduction in integration costs relating to the 1997 MetLife (U.K.) acquisition and strong stock market performance.

In 1998 the Division established $182 million after-tax, in special provisions to provide for minimum annuity rate guarantees offered on certain U.K. policies sold prior to the mid 1980's and for compensation to certain policyholders who bought personal pension products from the Company or its acquired businesses in previous years. The compensation calculation for prior pension product sales is prescribed by the U.K. regulator. Changes to the guidelines issued in 1999 led to a further increase in these provisions of $124 million after-tax. The provisions for prior pension product sales for 1999 and 1998 were recorded net of estimated recoveries from vendors of the businesses acquired by the Company in the U.K. The increase in the provision for prior pension product sales in 1999 was largely offset by releases of actuarial liabilities related to the establishment of the participating closed block sub-account at demutualization and other changes in actuarial assumptions. The provision for prior pension product sales is based on management's current estimate and the amount of the actual compensation to policyholders may vary from this amount.

Total revenues increased by $142 million, or 9% over 1998.

General Fund premium income increased by $46 million or 5% over 1998, mainly due to increased sales of annuities and group life and health insurance products. Additionally, premium income for 1998 included $220 million in short-term single premium bond sales which did not recur in 1999. However, these were replaced by $173 million in sales of a new series of single premium bond products by the Division's offshore subsidiary, Canada Life International Limited. Segregated Fund premium income grew by $136 million or 17% largely helped by continuing consumer preference for equity-based products.

Net investment income increased by $59 million or 13% over 1998, helped by a growth in the U.K. stock market.

Fee income increased by $37 million or 24% over 1998 due to the continued growth in the value of Segregated Fund assets and unit trust assets under administration. The asset growth resulted from a combination of strong stock markets and new business.

Total expenditures decreased by $93 million or 6% from 1998.

Payments to policyholders and beneficiaries decreased by $65 million or 9% from 1998, with the major factor being an improvement in group life insurance claims experience as compared to the prior year. This improved experience resulted from re-pricing actions taken by the Division during 1999.

The increase in actuarial liabilities was higher by $24 million or 4% over 1998. A further $158 million pre-tax was provided for in actuarial liabilities due to changes mandated by the regulator to the provisions for compensation to policyholders relating to pension sales in prior periods. This added cost, was offset by overall reductions in other actuarial liabilities which were no longer required following the creation of a participating closed block sub-account at demutualization and by other reductions caused by changes in actuarial assumptions.

Commissions increased $8 million or 12% over 1998. The growth in commissions for 1999 was consistent with the growth in new business. General expenses decreased by $60 million or 28% from 1998 levels, largely helped by a $27 million reduction in integration costs on the MetLife (U.K.) business acquired in 1997 and a $23 million reduction in fixed sales costs in the direct sales and subsidiary company operations.

Goodwill expense decreased by $29 million or 47% from 1998. The reduction was mainly the result of a $12 million write-down of goodwill in 1999 as compared to a $37 million write-down in 1998, due to economies of scale on the integration of the MetLife (U.K.) operations acquired in 1997. These write-downs were offset by a reduction in actuarial liabilities in each year.

The relatively low effective tax rate in the U.K. for 1999 reflected tax benefits due to losses recorded on the Division's pension business. The U.K. Division also benefited from a more favourable income tax structure available to its mutual life operations in the Canada Life branch in 1999 and previous years. As part of the demutualization process, the U.K. branch business was transferred to CLL.

General Fund assets increased by $367 million or 6% over 1998. Asset growth resulted from general growth in new business and improved stock market performance. These two factors were sufficient to offset any reduction caused by the strengthening of the Canadian dollar against the British pound in 1998.

Segregated Fund assets increased by $1.1 billion or 10% over 1998 largely due to strong stock markets and an increase in new premiums. This growth was somewhat restrained by the strengthening of the Canadian dollar against the British pound in 1999.

ANNUITIES

Most of the Company's annuity business in the U.K. consists of group payout annuities sold to individuals retiring from company sponsored pension plans. The U.K. Division also offers Segregated Fund (unit-linked) pension (annuity) products, which permit policyholders to participate in the performance of various unit-linked funds. Generally, these unit-linked products do not offer guarantees attached to investment performance. General Fund annuity premium income increased by $84 million or 20% over 1998. The underlying business grew by $31 million during the year as increased pricing generally restrained growth in the market. The remaining growth was largely related to the transfer of a block of deposit administration business from the Segregated Funds to the General Fund in 1999 totalling $53 million.

Segregated Fund premiums increased by $136 million or 17% over 1998 largely because consumer preference for equity-based products remained strong due to the continued growth in stock markets.

INDIVIDUAL INSURANCE

In the U.K., the Company offers term life insurance, critical illness and disability insurance. In recent years, the Company has concentrated on the development and promotion of individual and group term insurance and long term disability insurance as a way of accessing the IFA distribution system.

PARTICIPATING

Premium income for the participating business basically remained static in 1999, as compared to 1998. This reflects the U.K. Division's marketing focus whereby these are now closed funds and no new participating business is expected to be sold through the U.K. Division in the future.

NON-PARTICIPATING

Individual life and health premium income decreased by $61 million or 20% from 1998. As previously mentioned, this was largely due to a reduction in sales of single premium bonds in 1999 as compared to 1998.

GROUP LIFE AND HEALTH INSURANCE

In the U.K., the Company markets group life products consisting mainly of term insurance policies and group health products focused primarily on disability income insurance policies. The Division has been increasing its share in the U.K. group insurance market in recent years.

Premium income grew in 1999 by $22 million, or 14% over 1998. Both group life and health premiums grew reflecting new business generated over the year.

DIVISIONAL OUTLOOK

Management in the U.K. Division believes that there is continued scope to grow the business through both its main distribution channels of IFA's and its direct sales force. The insurance market in the U.K. remains strong.

The focus of expansion in the U.K. Division has been in the IFA market and this is expected to continue for both wealth management and protection products. Expansion will be achieved by increasing the number of broker sales consultants who service IFA's on behalf of the Company, which should lead to an increased coverage of IFA's, and by continued focus on marketing the Company's products. Management also expects to continue to develop relationships with other financial institutions and affinity groups to expand its overall market presence. In the group protection market, the management team will continue to search for acquisitions of businesses in order to build its market share.

Management will continue to improve on the quality of information systems that underpin the Division's customer service and financial reporting areas and expects to reduce costs and improve on customer service as a result.

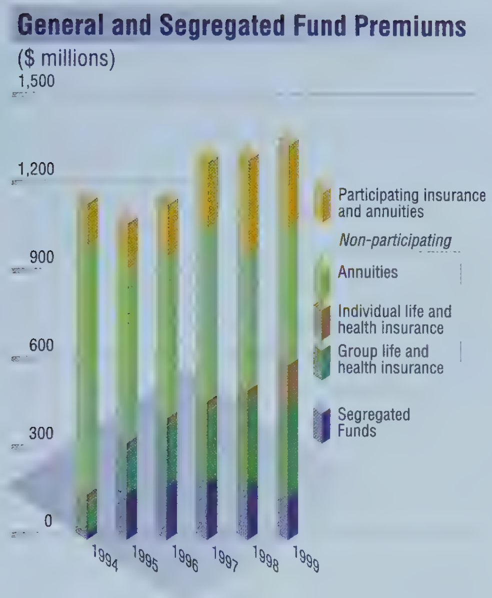
United States Division

The U.S. Division has its head office in Atlanta, Georgia and operates through Canada Life's U.S. branch and through the Division's wholly owned subsidiaries, Canada Life Insurance Company of America and Canada Life Insurance Company of New York.

The Division carries on business in all 50 states and in the District of Columbia. The Division is organized into two operational areas which market (i) group life insurance, disability income insurance and other group products, and (ii) individual life insurance and savings and investment products.

As at and for the year ended December 31	1999	1998	% Change
	$	$	
GENERAL FUND			
Revenues			
Premium income:			
Participating insurance and annuities	283	322	(12)
Non-participating:			
Annuities	466	464	-
Individual life and health insurance	130	35	271
Group life and health insurance	321	291	10
	1,200	1,112	8
Net investment income	659	532	24
Fee income	18	11	64
	1,877	1,655	13
Expenditures			
Payments to policyholders and beneficiaries	1,613	1,359	19
Decrease in actuarial liabilities	(47)	(7)	(571)
Commissions	81	78	4
General expenses	124	123	1
Premium taxes	13	13	-
	1,784	1,566	14
Net income before income taxes and goodwill expense	93	89	4
Income taxes	31	29	7
Net income before goodwill expense	62	60	3
Goodwill expense	2	-	-
Net income	60	60	-
Net income prior to demutualization	41	60	(32)
Net income subsequent to demutualization attributable to:			
Participating policyholders	-	-	-
Shareholders	19	-	-
	60	60	-
Total assets	9,143	7,474	22
SEGREGATED FUNDS			
Premiums	144	182	(21)
Total assets	1,026	833	23

For ease of comparison to the other divisions, the U.S. Division's discussion and analysis is broken down by product grouping rather than by operational areas.



Net income of $60 million was consistent with 1998. The Crown Life acquisition added to 1999 operating income, but this was largely offset by a decline in net income on the Company's surplus assets allocated to the U.S. Division in 1999. Net income on the remainder of the business declined slightly, as reduced administrative expenses were offset by a strengthening of actuarial liabilities resulting from revised assumptions and refinements in the basis of calculating these liabilities.

Total revenues increased by $222 million or 13% over 1998.

General Fund premium income increased by $88 million or 8% over 1998. The Crown Life business contributed $125 million in added premium income in 1999, with the majority of the contribution coming from the group and individual life insurance businesses. However, premium income otherwise declined by $37 million mostly due to a reduction in GIC sales and sales of individual life single premium products which more than offset increased sales of payout and structured settlement annuities. Segregated Fund premiums decreased by $38 million or 21% from 1998, primarily due to management's decision to de-emphasize sales of certain variable annuity products.

Net investment income increased by $127 million or 24% over 1998, primarily as a result of investment income earned on the acquired Crown Life assets. However, the low interest rate environment which existed for most of 1999 and losses on equity swaps used to hedge the common stock portfolio combined to dampen the return on invested assets.

Fee income increased by $7 million or 64% over 1998. This increase was attributable in large part to an increase in the variable annuity separate account assets.

Total expenditures increased by $218 million or 14% over 1998. The majority of the increase related to the addition of the Crown Life business.

Payments to policyholders increased by $254 million or 19% over 1998. The acquired Crown Life business contributed $262 million to this increase. The decrease on the existing block of business was largely due to a $67 million decline in group annuity payments, primarily as

a result of a lower level of scheduled GIC maturities, which was offset by a $59 million increase in benefit payments in other lines of business.

General expenses for 1999 were basically flat, as compared to 1998. General expenses increased by $15 million due to added ongoing general expenses and integration costs related to the Crown Life acquisition. Other increases totalled $20 million and were a result of higher corporate overhead charges, normal ongoing expense increases and demutualization costs. These increases were offset by a $19 million (pre-tax) reduction in provisions for retiree benefit costs and reduced guarantee fund assessment charges of approximately $15 million, the latter being a special charge incurred in 1998 that did not recur in 1999.

The decrease in actuarial liabilities exceeded the decrease in 1998 by $40 million. This was largely due to a reduction of actuarial liabilities relating to the group annuity block of business resulting from scheduled GIC maturities in 1999. Most of this was related to the business acquired from Crown Life. Additionally, actuarial liabilities were strengthened in 1999 for revised assumptions and refinements in the basis of calculating these liabilities, while in 1998, such items caused a reduction in actuarial liabilities.

Total General Fund assets increased $1.7 billion or 22% over 1998. Most of this increase was accounted for by the Crown Life acquisition which added $1.9 billion in assets at the end of 1999. Additionally, assets increased due to continued growth in business in the individual annuity and individual life insurance lines. This was offset by a decrease in group annuity business due primarily to GIC maturities. As well, the strengthening of the Canadian dollar reduced the reported Canadian dollar value of assets by approximately $450 million.

Segregated Fund assets increased by $193 million or 23% over 1998 largely as a function of strong stock market performance and related investment returns, which more than offset the dampening effect of the stronger Canadian dollar in 1999.

SAVINGS AND INVESTMENTS

Savings and Investments offers several individual fixed and variable annuity products. The variable annuity products are supported in the U.S. by the Company's Segregated Funds (Separate Accounts). In addition, the Division sells a limited amount of group accumulation annuity products and group payout annuities.

Total annuity premium income increased by $2 million over 1998. Individual annuity premium income increased $50 million for the year, largely as a result of improved sales in both payout and structured settlement annuities. However, group annuity premium income decreased $48 million in 1999 as a result of a continued de-emphasis on the GIC product offering.

As previously mentioned, Segregated Fund premiums decreased by $38 million or 21% from 1998.

INDIVIDUAL LIFE INSURANCE

The Individual Life Insurance operation markets participating whole life, universal life and term life insurance products, in addition to critical illness insurance.

PARTICIPATING

Participating insurance premium income decreased by $39 million or 12% from 1998 primarily due to a decrease in sales of individual life single premium products.

NON-PARTICIPATING

Non-participating life and health insurance premium income increased by $95 million or 271% over 1998 largely due to the acquired Crown Life business.

GROUP INSURANCE

The Group Insurance operation markets group life insurance and a variety of group health products including long-term disability, short-term disability, medical stop-loss insurance, and critical illness products. The target case-size for group life and health products is in the 50 to 2,500 life market.

Group life and health insurance premiums increased by $30 million or 10% over 1998. Group life premium income increased $22 million for the year, virtually all of

which was due to the Crown Life acquisition. Group health premium income increased $8 million for 1999, with $6 million of this increase coming from the Division's existing blocks of business and the remainder from the acquired Crown Life operations.

DIVISIONAL OUTLOOK

The Division's strategy is to focus on businesses that are strongest competitively – the Group Insurance and Individual Insurance markets. As such, a number of key initiatives relating to these businesses will be undertaken in 2000.

The Group Insurance operation began a significant expansion of its group sales force late in 1999 and will continue this expansion in 2000. The expansion is intended to increase the number of sales offices to 26 by 2001, with a corresponding increase in sales representatives from 55 to over 100.

The Individual Insurance operation will continue to develop the core distribution network while also pursuing other distribution opportunities. Individual Insurance will also broaden its product offerings into growth markets with the introduction of a variable universal life product in mid to late 2000. There will also be updates to other universal life products in the coming year.

The Crown Life acquisition added to the Division's profitability in 1999. Management anticipates continued profitability in 2000 as Crown Life is fully integrated into the Division's administrative systems. The Division will also continue to pursue additional value-added acquisition opportunities.

This coming year will also mark the completion of replacement projects for the Division's policy administration systems and the continued enhancement of U.S. financial systems.

Irish Division

The Irish Division has its principal office in Blackrock, Dublin, and operates through Canada Life's Irish branch and through Canada Life Assurance (Ireland) Limited and Setanta Asset Management Limited.

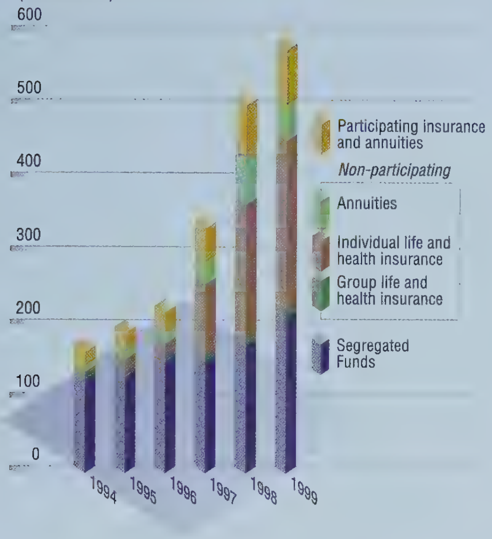
The Irish Division is organized according to its two major distribution channels, career agents and brokers. Both channels market all of the Irish Division's products.

Until 1998, the Irish Division's investment management functions for its General Fund business were performed primarily by the Company's U.K. Division and for its Segregated Fund (unit-linked) business, by the investment subsidiaries of two Irish banks. In 1998, the Irish Division assembled its own investment management team to manage the Irish Division's assets directly. During 1999, the team commenced management of the assets of the Irish Division and, in July 1999, commenced offering investment management services to third parties through the newly-established subsidiary, Setanta Asset Management Limited.

As at and for the year ended December 31	1999	1998	% Change
	$	$	
GENERAL FUND			
Revenues			
Premium income:			
Participating insurance and annuities	**74**	72	3
Non-participating:			
Annuities	**50**	63	(21)
Individual life and health insurance	**232**	186	25
Group life and health insurance	**9**	8	13
	365	329	11
Net investment income	**79**	72	10
Fee income	**51**	53	(4)
	495	454	9
Expenditures			
Payments to policyholders and beneficiaries	**173**	161	7
Increase in actuarial liabilities	**187**	151	24
Commissions	**34**	38	(11)
General expenses	**66**	65	2
Premium taxes	**3**	3	-
	463	418	11
Net income before income taxes and goodwill expense	**32**	36	(11)
Income taxes	**4**	4	-
Net income before goodwill expense	**28**	32	(13)
Goodwill expense	**-**	-	-
Net income	**28**	32	(13)
Net income prior to demutualization	**18**	32	(44)
Net income subsequent to demutualization attributable to:			
Participating policyholders	**(1)**	-	-
Shareholders	**11**	-	-
	28	32	(13)
Total assets	**1,024**	987	4
SEGREGATED FUNDS			
Premiums	**213**	173	23
Total assets	**1,747**	1,786	(2)

For ease of comparison to the other divisions, the Irish Division's discussion and analysis is broken down by product grouping rather than by distribution channels.

General and Segregated Fund Premiums
($ millions)



General and Segregated Fund Assets
($ millions)

Net income decreased by $4 million or 13% from 1998. This decrease was largely due to expenses associated with the Division's entry into Germany and growth in new business causing an increase in actuarial liabilities as a result of new business strain.

Total revenues increased by $41 million or 9% over 1998.

Premium income increased by $36 million, or 11% over 1998. This reflected the continuing success of the new Life Unitised With Profit product, which was launched in late 1998 and which enjoyed particularly strong sales in 1999. Segregated Fund premiums increased by $40 million or 23% over 1998 as a result of continued consumer demand for equity-based products.

Net investment income increased by $7 million or 10% over 1998. Investment returns were adversely affected by the continuing low interest rate environment in Ireland and the weak Irish equity market in 1999 as compared to 1998. The Irish ISEQ grew only 0.4% in 1999 compared to a 23.2% increase in 1998.

Fee income decreased by $2 million or 4% from 1998, mainly due to the trend toward tighter profit margins on Segregated Fund pension products.

Total expenditures increased by $45 million or 11% over 1998.

Payments to policyholders and beneficiaries increased by $12 million or 7% over 1998 largely as a result of scheduled maturities of one year guaranteed bonds sold in 1998.

The increase in actuarial liabilities was higher by $36 million or 24% over 1998. As discussed above, this increase in actuarial liabilities was largely due to the increase in new individual life single premium business in 1999.

Commissions decreased by $4 million or 11% from 1998 as a result of lower commission rates on the higher level of single premium individual life insurance products sold in 1999. General expenses increased by $1 million or 2% over 1998. The increase in general expenses relating to the expansion into Germany was largely offset by the strengthening of the Canadian dollar against the Irish pound.

General Fund assets increased by $37 million or 4% over 1998. This increase was tempered by the strengthening of the Canadian dollar over the Irish pound in

1999 as compared to 1998. The asset growth was 29% in Irish pounds and was attributed largely to the increase in new business in 1999.

Segregated Fund assets decreased by $39 million or 2% over 1998 in Canadian dollar terms. However, assets increased by 21% in Irish pounds as a result of an increase in business.

PENSIONS

The Irish Division sells individual and group annuities such as regular and single premium unit-linked and compulsory purchase payout retirement annuities.

Premium income for annuities decreased by $13 million or 21% from 1998 mainly due to a drop in compulsory purchase annuity business as a result of the low interest rates being offered on these products as compared to the potentially higher rates of return available on equity-based products.

Segregated Fund premiums increased by $40 million or 23% from 1998 as a result of the continuing consumer preference for equity-based products in Ireland's low interest rate environment. Segregated Funds offer returns tied to the equity markets which are potentially higher than the returns offered by General Fund annuity products.

INDIVIDUAL INSURANCE

The Irish Division's principal individual products consist of unit-linked whole life insurance which permits policyholders to participate in the performance of various unit-linked investment funds, term life insurance, participating whole life insurance, participating endowments, including pure endowments and single premium fixed annuity products. It also markets critical illness insurance.

PARTICIPATING

Premium income for participating insurance was $74 million, almost unchanged from 1999 even in light of the anticipated decline in demand for this product subsequent to demutualization.

NON-PARTICIPATING

Premium income for non-participating individual life and health insurance increased by $46 million or 25% over 1998. As outlined above, this increase was largely due to the success of the new Life Unitised With Profit product introduced in 1998.

GROUP INSURANCE

The Irish Division sells short-term single premium group insurance plans providing life and health insurance coverage. It sells these products using both its own sales force and independent brokers. However, due to the specialized nature of these products, it is generally only a small number of large brokerages that distribute them. Group products represent a very small part of the Irish Division's sales.

DIVISIONAL OUTLOOK

The Irish Division has significant market share in both the protection and wealth management markets. Management believes that the expansion of the Division's distribution capability will result from increased penetration of the broker market, continued growth in the career agency channel, and the pursuit of potential strategic alliances with building societies and other financial institutions. Management also expects that this strategy will lead to increased market share while lowering unit costs.

The Division has also significantly increased its wealth management capabilities through the incorporation of Setanta Asset Management Limited, which commenced operations in 1999. This new company, which has an experienced team of investment professionals, is now managing the majority of the Irish Division's assets directly and is also marketing its services to third parties. As part of its customer service initiatives, the Division commissioned its new pension administration and client management systems during 1999, thus placing the Irish Division as a leader in the provision of quality customer service in an increasingly demanding marketplace. The new systems will support the growth in the pension and life insurance business levels experienced in recent years, which management anticipates will continue into 2000.

The Division is also well advanced in the conversion of its systems to the Euro currency and will be in a position to provide dual currency pricing on all customer documentation by March 31, 2000, with full conversion coming on stream during 2001.

The Irish Division commenced plans to expand its business distribution capability into Germany. European Union directives on life insurance, together with the favourable tax rate available in Ireland for international financial services, provide new opportunities for business growth in this area. The Division plans to leverage on its capabilities in the life and pensions markets, as well as its software capabilities, to enter this market at a low level of incremental capital investment. Management anticipates that the first policies will be sold in Germany in the second half of 2000.

International and Reinsurance Division

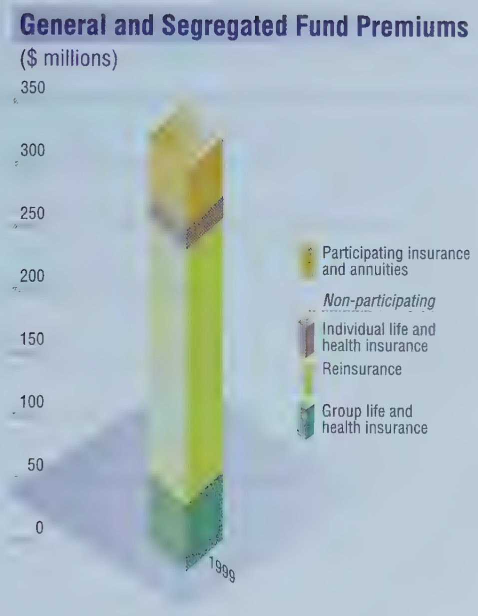
In 1999, the Company created a new International and Reinsurance Division. The Division is organized into two operational areas: the International operation which manages the Brazilian subsidiary holdings and certain non-North American business acquired from Crown Life, including the Hong Kong, Macau, Bermuda and Bahamas operations; and the Reinsurance operation which manages Canada Life's reinsurance business.

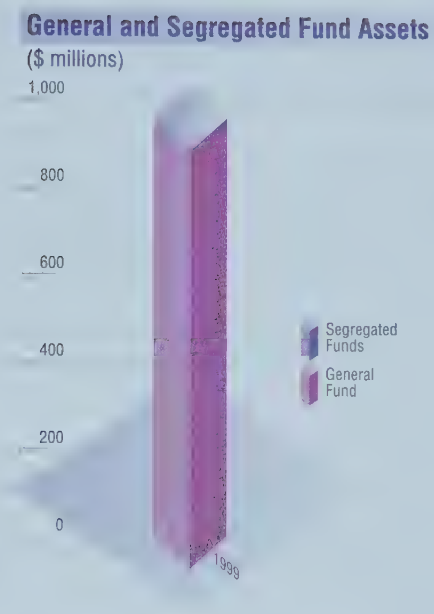
In July 1999, the International operation acquired, through its wholly-owned subsidiary Canada Life of Brasil Ltda., a 70% equity interest in Canada Life Pactual Previdéncia é Seguros S.A. ("CLP"), a small Brazilian insurance and pension company. Banco Pactual S.A., a large Brazilian investment bank, owns the other 30% of CLP and will manage funds for CLP.

The Division's Reinsurance operation acts primarily as a direct reinsurer in the regular life insurance business and as both a reinsurer and retrocessionaire in the accident and health insurance business. The Division also administers financial reinsurance contracts. The majority of the Division's reinsurance business is in the U.S.

As at and for the year ended December 31	1999*
	$
GENERAL FUND	
Revenues	
Premium income:	
Participating insurance and annuities	46
Non-participating:	
Individual life and health insurance	18
Group life and health insurance	54
Reinsurance	202
	320
Net investment income	63
Fee income	4
	387
Expenditures	
Payments to policyholders and beneficiaries	246
Increase in actuarial liabilities	29
Commissions	61
General expenses	22
Premium taxes	4
Interest expense	1
	363
Net income before income taxes and goodwill expense	24
Income taxes	7
Net income before goodwill expense	17
Goodwill expense	1
Net income	16
Net income prior to demutualization	14
Net income subsequent to demutualization attributable to:	
Participating policyholders	-
Shareholders	2
	16
Total assets	958
SEGREGATED FUNDS	
Premiums	-
Total assets	1

* *This Division is new for 1999 and consequently there are no comparative numbers.*





Net income of $16 million for the International and Reinsurance Division for 1999 primarily represents income generated by the acquired Crown Life operations and was largely due to favourable mortality and morbidity experience in the individual and group life and health insurance lines.

INTERNATIONAL OPERATIONS

The International operation administers life, health and pension insurance portfolios in Hong Kong, Macau, the Bahamas, Bermuda, Puerto Rico, and several other non-North American countries. In Bermuda and the Bahamas, a range of insurance products are marketed. Group products are also offered in Puerto Rico and the U.S. Virgin Islands. Social security and pension related products are also being developed in Brazil. Management has also been exploring the possibility of establishing operations in India and the People's Republic of China.

In 1999, the new International operation contributed $118 million in premium income and $578 million in assets.

REINSURANCE OPERATIONS

The Reinsurance operation was new for 1999 as a result of the acquisition of Crown Life's operations. This operation markets life, accident and health, and financial reinsurance. Life reinsurance is comprised of individual life reinsurance assumed and retroceded primarily from companies in the U.S. Accident and health reinsurance, mainly in the U.S., includes catastrophe, personal accident, workers' compensation and life and disability in excess of loss reinsurance. The financial reinsurance operation primarily provides reinsurance to other insurance companies in the U.S.

Life reinsurance posted strong premium income of $108 million for the year due to new business. Twenty-five new contracts were entered into in 1999. Premium income for accident and health reinsurance was $94 million for 1999 but this is expected to decline in 2000 due to the Division's decision to exit the U.S. medical insurance market.

DIVISIONAL OUTLOOK

The Division's International operation will move forward on a number of fronts in 2000. Management expects to

complete the integration of the businesses acquired from Crown Life, including completing the licensing of those acquired operations in Canada Life's name.

CLP is well positioned to expand into the rapidly growing local pension market. Work will commence in 2000 to leverage the CLP distribution to corporate clients and to develop further group pension and insurance product lines for those customers. Independent distribution opportunities will also be developed in 2000 to establish a strong base on which the Division can grow.

In India, the Company has signed a memorandum of understanding with 20th Century Finance Corporation, and Centurion Bank, to form a joint venture in the insurance sector. Management believes that the Indian market will offer long-term opportunities as it opens its insurance market to foreign insurers. Legislation was recently passed to allow privatization of the insurance sector and management is hopeful of the joint venture receiving a license at the earliest possible date, though this may not occur until 2001.

Management has also been exploring the possibility of establishing operations in the People's Republic of China. The Company has established a representative office, which is one of the prerequisites to applying for a license to sell insurance products in that country. The representative office is currently exploring and researching the market in China. The Company is not yet eligible and therefore has not yet applied for a license to sell insurance products in the People's Republic of China and there can be no assurance such a license would be obtained if an application was made.

Management's outlook for the reinsurance business reflects strong but steady growth in the life reinsurance market, a continued moratorium on U.S. medical insurance business in the Division's accident and health unit, an improvement in morbidity in future years and continued stability in financial reinsurance.

Financial Position

GENERAL FUND INVESTED ASSETS

The Company's investment operations are comprised of investment management groups in Toronto, London, Dublin and various investment subsidiaries. The Toronto investment group is responsible for setting investment policy for the Company's worldwide operations and managing the Company's North American assets as well as the Company's surplus assets worldwide. The investment management groups in London and Dublin manage the U.K. and Irish assets, respectively.

The Company's principal Canadian investment subsidiaries are Canada Life Mortgage Services Ltd. ("CLMS") and Adason Properties Limited ("Adason"). Both CLMS and Adason are wholly-owned subsidiaries of Canada Life. CLMS, the Company's Canadian mortgage correspondent company, specializes in originating and servicing mortgage investment loans for institutional clients. Adason acts as the advisor and property manager for the Company's North American real estate portfolio. In addition, the Company owns 35% of Laketon Investment Management Ltd. ("Laketon"), which manages investment assets on behalf of the Company and third parties. In March 1999, INDAGO Capital Management Inc., in which the Company held a 50% equity interest, merged with Laketon under the Laketon name.

The investment operations are responsible for investment portfolio management and administration of the Company's invested assets. Considerable effort is directed towards total portfolio management results. These results are monitored through key performance measures of return on invested assets and are compared against benchmarks established for the operating funds and the investments supporting the equity of the Company.

The Company's current investment strategy is focused on investing the majority of its General Fund assets in fixed income securities, primarily investment grade bonds and commercial mortgages.

Over the past few years, the Company had increased the proportion of fixed income securities and reduced its dependence on stocks and real estate. This strategy also involved purchasing senior government securities rather than corporate bonds as interest rate spreads were considered narrow.

As interest rate spreads widened more recently, the Company initiated a program in 1999 to enhance yields on its investments by approximately 12 basis points. This program involved selling a portion of senior government bonds and lower yielding securities, and replacing them with higher yielding public and private bonds and conventional mortgages. Under this program, the Company purchased $2.1 billion of investments, most of which were bonds, with a weighted average rating of A which reduced the average bond portfolio quality rating from AA to AA- and resulted in a minimal decrease in the liquidity of the fixed income portfolio.

A high yield bond program, implemented in 1997, has shown positive results to date and has achieved the projected enhanced yields from this investment type. The amount invested in this program at December 31, 1999 totalled $266 million, a substantial increase from $152 million at the end of 1998. Management will consider the benefit of continuing this program in 2000.

The mix of General Fund invested assets based on carrying values by type of investment was as follows:

INVESTED ASSETS	1999		1998	
	$	%	$	%
Bonds:				
Government – Canada	**2,646**	**9**	2,955	12
Government – Foreign*	**4,040**	**14**	3,343	13
Corporate and other	**9,714**	**34**	7,352	29
Mortgages:				
Insured**	**769**	**3**	806	3
Non-insured	**6,348**	**22**	5,545	22
Common and preferred stocks	**1,868**	**6**	1,833	7
Real estate	**974**	**3**	993	4
Policy loans	**942**	**3**	489	2
Cash and cash equivalents	**914**	**3**	1,049	5
Short-term investments	**119**	**1**	222	1
Other investments	**673**	**2**	565	2
Total invested assets - carrying value	**29,007**	**100**	25,152	100
- fair value	**30,247**		28,155	

* *Senior U.S., U.K. and Irish government bonds.*
** *Insured mortgages are those guaranteed by governments or third parties.*

The fair value of invested assets exceeded their carrying value by $1,240 million, as compared with an excess of fair value over carrying value of $3,003 million in 1998. This decrease primarily reflected the rising interest rates that resulted in lower bond values in 1999. As described in note 7(a) to the Consolidated Financial Statements, changes in the fair value of assets supporting the actuarial and other liabilities of the Company's operating funds, generally will not result in a corresponding change in shareholders' equity, due to the Company's asset/liability management practices. However, the excess of fair value over carrying value and net deferred realized gains on assets supporting shareholders' equity will result in a corresponding change in shareholders' equity. Such excess amounts in shareholders' equity totalled $390 million in 1999 compared to $534 million in 1998.

The aggregate amount of impaired assets declined to $94 million at the end of 1999, as compared to $115 million in 1998. The decrease reflected continued improvements in the North American commercial mortgage and real estate markets.

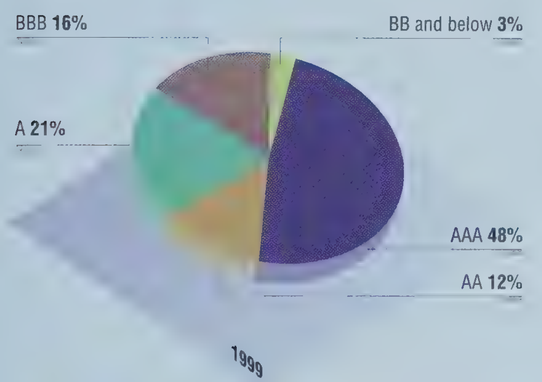
BONDS

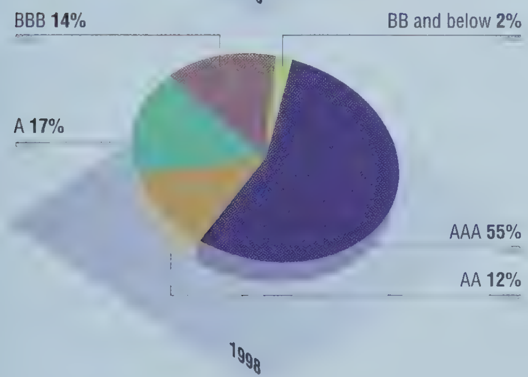
The percentage of bonds to total General Fund invested assets increased slightly from 54% in 1998 to 57% in 1999. The increase was due to the bonds acquired from Crown Life, which totalled $2,176 million at the end of the year, and growth in the various jurisdictions of $1,249 million. These increases were offset by a decrease of $675 million due to the strengthening of the Canadian dollar against the U.S. dollar, the British pound and the Irish pound.

The Company's policy is to maintain a bond portfolio having a minimum weighted average rating of A, as rated by independent rating agencies, where available, or by the Company on a basis that the Company believes is comparable to that used by independent rating agencies. In addition, the Company's investment policy limits the permitted proportion of high yield debt investments in each jurisdiction to 5% of the carrying value of that jurisdiction's bonds and mortgages.

In spite of the previously discussed yield enhancement initiative, the Company's continuing focus on prudent investment policies resulted in a high quality bond portfolio with an overall weighted average rating of AA- for 1999, compared to AA in 1998. Bonds issued or guaranteed by central governments in countries where the Company operates represented 40% of the total bond portfolio for 1999 and 47% for 1998.

BOND PORTFOLIO QUALITY





As at December 31, 1999, approximately $24 million of bonds ($25 million in 1998) were classified by the Company as impaired. The Company has established and enforces industry and issuer diversification policies and seeks to minimize credit risk exposure to individual issuers. These investment policies, combined with conservative underwriting and lending practices, contributed to the high credit quality of the Company's bond portfolio.

MORTGAGES

Mortgages increased by $766 million in 1999, much of the increase was from the acquisition of Crown Life mortgages, which amounted to $732 million at the end of the year, and general growth in the four countries of $240 million. These increases were offset by a reduction of $206 million due to the strengthening of the Canadian dollar against foreign currencies during the year.

As at December 31, 1999, the Company had approximately $7.1 billion ($6.4 billion in 1998) invested in its mortgage portfolio, of which 36% were mortgages on apartments and 34% were mortgages on retail premises. The Company invests almost entirely in first mortgages. Generally, the Company does not participate in speculative development lending or single family residential mortgages and has not invested significantly in participating mortgages. The mortgage portfolio included $769 million ($806 million in 1998) of government insured mortgages in the Canadian portfolio. While the Company generally requires a maximum loan to value ratio of 75% on non-insured mortgages, it may invest in mortgages with a higher loan to value ratio if the mortgage is insured. The Company does not generally take an equity position on any property on which it has a mortgage.

The Company's mortgage portfolio is diversified by location and property type. The following table details the composition of the Company's mortgage portfolio, by jurisdiction and property type.

MORTGAGES BY JURISDICTION AND PROPERTY TYPE	1999		1998	
	$	%	$	%
CANADA				
Apartments	1,450	38	1,468	44
Office	324	9	248	7
Retail	1,346	36	1,083	32
Industrial	552	15	442	13
Other	92	2	120	4
	3,764	100	3,361	100
UNITED STATES				
Apartments	1,064	38	992	40
Office	410	15	362	15
Retail	813	29	653	26
Industrial	453	16	401	16
Other	61	2	85	3
	2,801	100	2,493	100
UNITED KINGDOM				
Apartments	1	-	1	-
Office	121	27	161	33
Retail	243	53	229	46
Industrial	48	10	55	11
Other	48	10	49	10
	461	100	495	100
REPUBLIC OF IRELAND				
Office	1	100	2	100
	1	100	2	100
INTERNATIONAL AND REINSURANCE*				
Apartments	17	19	-	-
Office	16	18	-	-
Retail	43	48	-	-
Industrial	8	9	-	-
Other	6	6	-	-
	90	100	-	-
TOTAL				
Apartments	2,532	36	2,461	39
Office	872	12	773	12
Retail	2,445	34	1,965	31
Industrial	1,061	15	898	14
Other	207	3	254	4
	7,117	100	6,351	100

* *The International and Reinsurance Division holds all its mortgages in the U.S.*

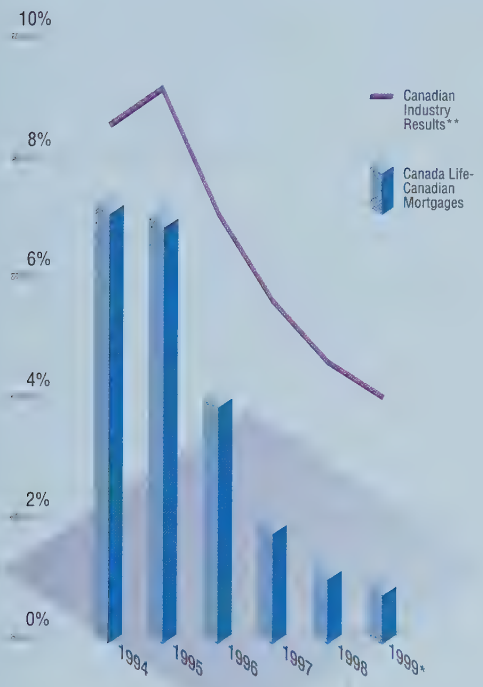
In Canada, CLMS originates and services investments in mortgages which are underwritten by the Company. In the U.S., the Company's mortgage portfolio is originated through a correspondent network and is underwritten by the Company. It is the Company's policy that most North American mortgage investments are evaluated and rated by senior investment staff annually and written summary reports are prepared for review by the Company's management. The Company both originates and underwrites its mortgages in the U.K.

The Company actively manages the asset quality of its mortgage portfolio. Mortgages are rated using a formal internal rating system during the initial approval process, upon renewal or when identified by mortgage personnel as requiring re-rating. The Company has established overall minimums for mortgage portfolio credit quality. A weighted average minimum rating, excluding government-insured mortgages, of BBB-, has been set for the mortgage portfolio, on a basis the Company believes is comparable to definitions used by an independent rating agency. At the end of 1999, the Company held a high quality mortgage portfolio with a weighted average rating, excluding government-insured mortgages, of A.

The majority of the Company's mortgage portfolio is located in Canada and the U.S. The following graphs illustrate the Company's experience with mortgage arrears, foreclosures and restructurings, based on a percentage of the carrying value of the mortgage portfolio compared to industry results in Canada and the U.S.

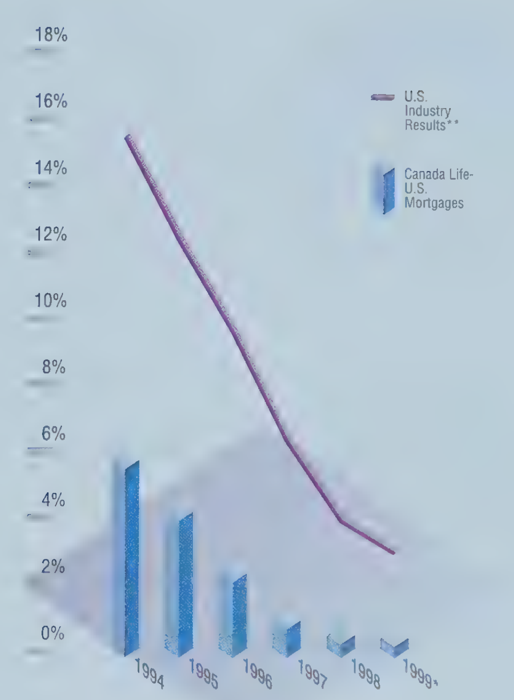
MORTGAGE ARREARS, FORECLOSURES AND RESTRUCTURING EXPERIENCE RESULTS

Canada



* September 1999 Industry Survey Results
** Source: Canadian Life and Health Insurance Association Incorporated

United States



* September 1999 Industry Survey Results
** Source: American Council of Life Insurance

As at December 31, 1999, approximately $42 million ($50 million in 1998) of mortgage investments were classified by the Company as impaired.

Commercial real estate in North America showed strength in 1998 and this trend continued into 1999. The overall arrears, foreclosures and restructuring experience for the Company's mortgage portfolio improved further in 1999 and was more favourable than industry averages in both Canada and the U.S. as detailed in the above graphs.

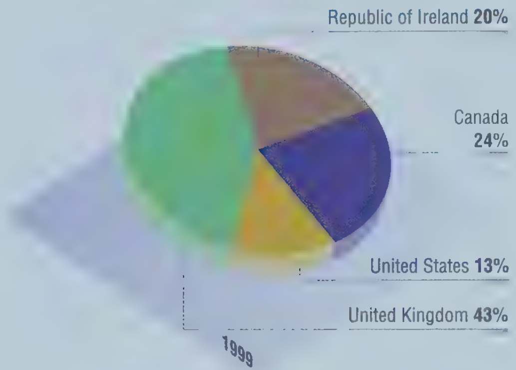
COMMON AND PREFERRED STOCKS

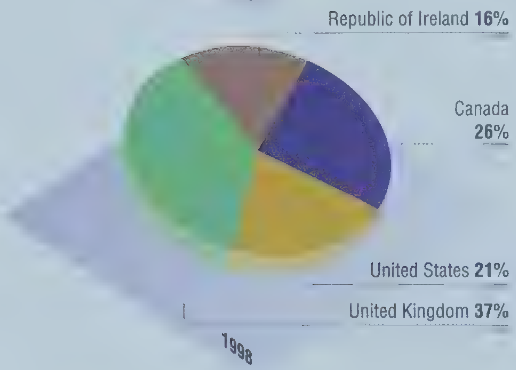
Common and preferred stocks increased to $1,868 million in 1999, compared with $1,833 million in 1998. The slight increase in carrying value was due to the amortization of unrealized gains (as described in note 3(b)(ii) to the Consolidated Financial Statements) of $111 million. This increase was offset by a decrease of $137 million due to the strengthening of the Canadian dollar against foreign currencies. As at December 31, 1999, common stocks represented approximately 95% of the total common and preferred stock portfolio. Approximately 99% of the common and preferred stock portfolio was comprised of stocks which were quoted on recognized stock exchanges.

The fair value of common and preferred stocks grew to $2,510 million by year-end, which resulted in an excess of fair value over carrying value of $642 million.

The stock portfolio is diversified by industry classification and issuer. At December 31, 1999, the largest issuer represented 2% (unchanged from 1998) of the common and preferred stock portfolio based on the carrying value of those securities.

COMMON AND PREFERRED STOCKS BY JURISDICTION





The shift in jurisdictional asset mix in 1999 reflected the Company's continuing strategy of monitoring its asset mix in each operating jurisdiction and to enhance yields based on market-related forecasts.

REAL ESTATE

Investments in real estate of $974 million represented a $19 million or 2% decrease from 1998, which was consistent with the Company's focus on reducing its real estate exposure. An increase due to the acquisition of the Regina Western Headquarters property from Crown Life was offset by a decrease due to the strengthening of the Canadian dollar and sales of real estate holdings.

Excluding Company-owned head offices, almost all real estate assets were income-producing.

REAL ESTATE BY JURISDICTION AND PROPERTY TYPE

	1999		1998	
	$	%	$	%
CANADA				
Retail	253	50	241	48
Offices	10	2	42	8
Company head office	169	34	137	28
Industrial	12	2	13	3
Other	60	12	65	13
	504	100	498	100
UNITED STATES				
Retail	-	-	1	2
Offices	40	100	46	98
	40	100	47	100
UNITED KINGDOM				
Retail	84	21	96	24
Offices	160	40	174	42
Company head office	42	11	45	11
Industrial	94	24	82	20
Other	14	4	13	3
	394	100	410	100
REPUBLIC OF IRELAND				
Retail	20	59	21	55
Offices	14	41	17	45
	34	100	38	100
INTERNATIONAL AND REINSURANCE*				
Offices	2	100	-	-
	2	100	-	-
TOTAL				
Retail	357	37	359	36
Offices	226	23	279	28
Company head office	211	22	182	18
Industrial	106	11	95	10
Other	74	7	78	8
	974	100	993	100

* *The International and Reinsurance Division holds all its real estate in Brazil.*

At December 31, 1998, Canada Life owned 15.8% or $31 million of the units of the Avista REIT. Canada Life's subsidiary Adason provided advisory and property management services to the Avista REIT. With the intent of reducing the Company's real estate exposure, Canada Life sold its interest in the Avista REIT to Summit Real Estate Investment Trust ("Summit") in exchange for $19.1 million in cash and 926,073 units of Summit on November 5, 1999. Canada Life's ownership interest in Summit was 3.5% at the date of this transaction. Summit terminated Adason's advisory and property management agreements in the fourth quarter of 1999.

OUTLOOK FOR THE GENERAL FUND

Looking forward to 2000, the Company's management will continue to focus on optimizing investment returns. The yield enhancement program put in place late in 1999 will continue in 2000 and should positively impact investment returns. In order to further enhance investment performance, the Company will continue to focus on finding new sources and types of investments, asset/liability management, asset mix shifts, derivative instruments, bond portfolio management, fee generation opportunities and advancing the capabilities of its technological systems.

Securities lending has been a means of enhancing investment income in Canada for a number of years and was successfully implemented in the Company's U.S. subsidiaries in 1998. Plans for 2000 include an expansion of this initiative to the U.S. branch operations of the Company.

Management believes that the Company's expertise in mortgage underwriting and private placement bonds will continue to provide the Company with higher returns that achieve target spreads established with the operating divisions. The strategy for the management of the surplus fund is to generate a growing contribution to corporate earnings.

SEGREGATED FUND ASSETS

The Company earns fee income from managing certain funds, which are maintained as Segregated Funds separate from its General Fund. This business includes Canadian segregated annuity funds, unit-linked life insurance and annuity business in the U.K. and Ireland and variable annuity separate account business in the U.S. The premiums paid into and the net assets of a Segregated Fund are for the benefit of the policyholders investing in that particular fund. The net assets are carried at fair value in the Consolidated Financial Statements. The asset mix within each Segregated Fund is basically determined by the investment objectives of that particular fund. The Segregated Fund investment returns are targeted to exceed median portfolio returns of similar competitor funds.

The Company does not guarantee the investment performance of the Segregated Funds. However, in Canada, for its individual Segregated Fund products it provides various return of premium guarantees upon death of the purchaser. In addition, the return of a portion of premiums paid may be guaranteed at the maturity date of the policy. In the U.S., the Company offers return of premium guarantees upon the purchaser's death.

Segregated Fund assets grew by 17% or $3,203 million in 1999 and, as at December 31, 1999 represented 40% of the Company's total assets under administration compared to 39% of assets under administration at December 31, 1998. The increase in Segregated Fund assets was due to significant growth in business in Canada, the U.K. and Ireland as well as strong stock market performance in Canada, the U.K. and the U.S. Additionally, the Crown Life acquisition added $767 million to Segregated Fund assets at January 1, 1999. These increases were offset by the strengthening of the Canadian dollar against foreign currencies during the year. The breakdown of Segregated Fund assets by category is shown in the Consolidated Statement of Changes in Segregated Funds.

ACTUARIAL LIABILITIES

Actuarial liabilities represent the amounts required, together with future premiums and estimated investment income, to provide for the estimated future benefits, dividends, commissions and policy maintenance expenses on policies in force. These liabilities are determined using generally accepted actuarial practice, according to standards established by the Canadian Institute of Actuaries ("CIA"). Their calculation involves the estimation of the occurrence of events, which may or may not happen until many years in the future. The determination of actuarial liabilities includes assumptions, which are described in note 4 to the Consolidated Financial Statements.

The actuarial liabilities constitute those financial statement amounts potentially subject to the highest level of measurement uncertainty as their determination is complex, reflecting the diversity of the underlying products and product features as well as a variety of best estimate assumptions. Because of the risk of mis-estimation in determining the amounts for these liabilities, the best estimate assumptions are adjusted to include margins for adverse deviation, which provide for unfavourable deviations from expected experience. Due to the long-term nature of actuarial liabilities and the incorporation of margins for adverse deviation, a fluctuation in experience compared to any one assumption in the near term would not normally be expected to have a significant effect on the financial results of the Company.

As noted above, the assumptions used in the calculations are based on best estimates. The Company's position within the range for the margins for adverse deviation depends on the risk profile of the particular line of business. The majority of the Company's business is low risk so that margins at the low end of the range, as prescribed by the CIA guidelines, would often be justifiable. However, the Company frequently follows a more prudent practice of establishing margins generally close to the middle of the permissible range.

The composition of actuarial liabilities is shown below:

ACTUARIAL LIABILITIES	1999		1998	
	$	%	$	%
General Fund				
Participating insurance and annuities	**4,795**	**20**	3,962	20
Non-participating:				
Annuities	**14,108**	**60**	13,357	68
Life and health insurance:				
Individual	**3,055**	**13**	904	5
Group	**1,703**	**7**	1,334	7
General insurance	**60**	**-**	57	-
	23,721	**100**	19,614	100
Segregated Fund				
Life	**6,090**	**28**	5,507	29
Annuities	**15,785**	**72**	13,165	71
	21,875	**100**	18,672	100

Actuarial liabilities for total General Fund participating and non-participating annuities were $14,496 million for 1999 and $13,470 million for 1998 and represented 61% and 69% of the Company's total General Fund actuarial liabilities for 1999 and 1998, respectively. The proportionate decrease in annuity liabilities from 69% in 1998 was mainly due to the acquisition of Crown Life's operations on January 1, 1999. Crown Life added a higher percentage of life and health insurance business and a lower percentage of annuities as compared to the Company's existing operations. Other factors such as surrenders of fixed interest annuity products and a proportionate increase in life insurance sales have also contributed to the proportionate decrease in annuity liabilities.

A continuity of changes in General Fund actuarial liabilities and a summary of the General Fund actuarial liabilities by division and by major line of business are included in notes 8(a) and 8(b), respectively, to the Consolidated Financial Statements.

CAPITAL MANAGEMENT

CAPITAL	1999	1998
	$	$
Subordinated debentures	550	550
Total equity:*		
Policyholders' equity	-	2,694
Participating policyholders' surplus	47	-
Share capital	317	-
Retained earnings	2,513	-
Total capital	3,427	3,244
Non-equity capital to capital ratio	16.0%	17.0%

Changes to policyholders' equity from 1998 to 1999 are shown on the Consolidated Statement of Equity.

CAPITAL

Capital strength is important for the protection of shareholders, policyholders and creditors. Capital strength also ensures that the Company maintains its strong credit ratings and allows it to take advantage of profitable opportunities. The Company maintains a balance between the mix and level of capital to meet differing objectives. Sufficient capital is required to meet the requirements of regulators and the expectations of policyholders. However, capital levels that are too high may lead to poor returns on shareholders' equity. The sources of capital are shown above.

Most of the Company's existing capital has been generated from retained earnings. However, a portion of capital consists of subordinated debt. The ratio of such debt to capital was 16.0% at the end of 1999, approximately the level the Company is targetting. Management anticipates that, at some point in the future, the Board of Directors will consider issuing preferred shares or similar instruments such that the total preferred shares and subordinated debt outstanding does not exceed 25% of total capital.

CAPITAL ADEQUACY

As described in note 16 to the Consolidated Financial Statements, minimum levels of regulatory, or available capital must be maintained by life insurance companies to ensure future solvency. These minimum levels are calculated based on a formula for the MCCSR as prescribed by the Office of the Superintendent of Financial

Institutions Canada ("OSFI"). This formula prescribes those adjustments to be made to the Company's capital to derive available capital. For example, goodwill is excluded from available capital but the Company's $550 million of subordinated debentures and any non-voting shares it might issue are included. The MCCSR formula also prescribes the amounts of required capital to be maintained. Required capital amounts are determined based on the risk characteristics of the underlying assets and liabilities held by the Company. The ratio of available capital to required capital is the MCCSR ratio.

The Company's policy is to maintain an MCCSR ratio of 175%, or more, which is well in excess of the minimum required levels. At the end of 1999, the ratio was 190%. The 1998 ratio was 212%. Available capital and required capital at December 31, 1999 were approximately $3,388 million and $1,779 million, respectively, and at December 31, 1998 were $3,201 million and $1,513 million, respectively.

The change in the MCCSR ratio from 1998 to 1999 is as follows:

MCCSR	%
MCCSR ratio, beginning of year as originally reported	212
Net decrease due to changes in OSFI's calculation methods in 1999	(2)
Decrease due to the purchase of Crown Life on January 1, 1999	(32)
MCCSR ratio, beginning of year on a 1999 basis, adjusted for the Crown Life acquisition	178
Increase due to 1999 operations	12
Estimated MCCSR ratio, end of year	190

The Company must also meet the regulatory minimum capital and solvency requirements of each foreign jurisdiction in which it operates; and, as indicated in note 16 to the Consolidated Financial Statements, the Company exceeds these requirements in all of these jurisdictions. The Company maintains sufficient assets in each jurisdiction to meet both its policyholder obligations and local minimum surplus and solvency requirements.

The Company's ability to meet its cash requirements and pay dividends on its common shares will depend upon the receipt of dividends and other payments from Canada Life. Canada Life's insurance subsidiaries and branches are required to maintain solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of the dividends, distributions or other payments that may be made by subsidiaries and branches to Canada Life and to the Company.

Financial Risk Management Practices

The Company is subject to various financial and other risks including investment risks and insurance risks. A risk management framework has been established by the Company to measure, monitor and control these risks. The risk management framework generally includes the establishment of appropriate limits, proper internal controls, and regular reporting on risks to the Board of Directors as well as periodic reviews by internal and external auditors and regulators. This framework is designed to provide a high degree of assurance that no single event, or combination of events, will materially affect the well being of the Company. The approach taken to manage and control each type of risk is described in the following discussion. The nature of the risks managed, along with a measure of the Company's maximum potential exposure to these risks, is described in note 5 to the Consolidated Financial Statements.

INVESTMENT RISKS

The Company's investment objectives are to maximize investment returns within appropriate risk parameters. Investment policies have been established by the Company which balance these objectives and which address those factors its regulators would expect the Company to consider in formulating prudent investment practices. These policies, among other things:

- set strict guidelines for asset/liability matching by fund and the degree of mismatch that will be permitted;
- define asset mix parameters for the investment portfolio;
- specify how investment authorities can be delegated within the Company and who can execute the investment policies;
- set lending standards to ensure strong credit quality for the mortgage portfolio;
- set limits on the amount of foreign currency exposure the Company is willing to accept;
- establish tight control on the use of derivative financial instruments and on securities lending activity; and
- specify approved value-added activities to generate added investment returns and special conditions, procedures or limitations relating to those activities.

The investment policies are recommended by the Investment Division to the Company's Finance Committee (chaired by the Chief Executive Officer and comprised of senior financial and investment management personnel) and are submitted at least annually to the Board of Directors for approval. In addition, management advises the Board quarterly, in writing, of the Company's adherence to investment policies.

The primary investment risks that the Company is subject to include interest rate, credit, foreign currency, liquidity, and market risk. The Company's management of these risks and its use of derivative financial instruments are described below.

INTEREST RATE RISK

Interest rate risk is the risk of loss due to changing interest rates if the future cash flows from the assets supporting the liabilities do not match the timing and amount of the expected policy obligation payments. Many of the Company's liabilities involve either contractual or otherwise predictable payments to policyholders. These cash outflows are matched with equally predictable asset cash inflows whenever possible. In order to manage interest rate risk, the Company maintains separate funds of assets to support associated liabilities by line of business and by country. Each fund has an appropriate matching policy, which requires the level of mismatch to be kept within prescribed limits. Conscious mismatching of these sets of predictable cash flows can add value to the Company if interest rate changes are correctly anticipated. However, mismatching can have the opposite effect if the anticipated changes turn out to be incorrect. Therefore, mismatching is only permitted within limits prescribed by the Board of Directors of the Company. This matching policy is a critical element of the Company's investment policy. The matching of the assets to the liabilities is monitored regularly by a separate group within the Company dedicated to this purpose. The interest rate risk is managed through a number of means including the purchase and sale of conventional bonds, interest rate

futures, managing cash positions and short selling of treasury bills.

Proper matching of assets and liabilities is particularly critical for the Company's funds supporting its annuity and pension products, which constitute approximately 61% of the Company's General Fund actuarial liabilities. The timing and amount of the benefit obligations for many of these types of products can be readily determined as the Company has an obligation to pay fixed amounts for pre-arranged terms. The Company matches the duration of the assets and liabilities of the funds supporting these types of products within limits prescribed by the Board of Directors. The Company measures interest rate risk for its annuity and pension products through the use of duration mismatch and interest rate sensitivity analysis, as described in note 5(b) to the Consolidated Financial Statements.

For its life insurance business, the Company guarantees cash surrender values on most of its life insurance products. The Company would be exposed to losses if policyholders surrendered their policies during a period when interest rates were rising significantly, since the value of fixed term investments decrease when interest rates increase. OSFI requires the Company to calculate its MCCSR ratio such that specified amounts of capital are held to cover this risk.

The Company has provided interest rate guarantees on certain annuity and insurance contracts and, as such, is exposed to losses if interest rates fall below certain levels. The Company has prudently provided for these guarantees in its actuarial liabilities, and through derivative contracts that hedge its exposure to minimize the impact of future interest rate decreases.

CREDIT RISK

Credit loss may occur when a debtor fails to honour its obligations to the Company. The Company has established investment policies, the objective of which is to maintain a well-diversified portfolio of relatively high overall quality. This is accomplished by setting standards relating to the quality of assets and limits on the concentration of credit risk by type of borrower and by geographic location.

Minimum limits have been set for bond and mortgage portfolio qualities. Weighted average rating minimums of A and BBB- as defined by Standard & Poor's have been set for the bond and mortgage portfolios, respectively. The combined credit quality of all credit instruments, including the credit equivalent exposure to derivatives, is required to be at least A-. In addition, the Company's investment policy limits the permitted proportion of high yield/lower rated bonds in each jurisdiction to 5% of the carrying value of that jurisdiction's bonds and mortgages.

The Company's investment policy relating to concentration of credit risk is to generally have the same level of country credit exposure, relative to combined liabilities and surplus, in each of the jurisdictions in which the Company operates. Various limits have also been established on percentages of mortgages, bonds and other loans that can be held by property type or by industry group. In addition, it is the Company's policy that non-government insured mortgages will not exceed 50% of all lending and that loans of whatever type secured by real estate will not exceed 60% of all loans made by the Company. Finally, the Company has an overall corporate concentration limit on its combined lending and equity positions in any one group of closely related corporate entities to 25% of the Company's equity.

FOREIGN CURRENCY RISK

Foreign currency risk is the exposure to the potential for losses resulting from adverse movements in foreign exchange rates in relation to the Canadian dollar. It arises from currency mismatches between assets and liabilities and the cash flows therefrom. As a multinational company that reports its results in Canadian dollars, the

Company has an ongoing exposure to changes in foreign exchange rates. The Company manages the exposure of its operating funds to this risk by closely matching its operating fund assets and liabilities by currency in each country of operation.

The Company also holds assets supporting its equity in the currencies of each jurisdiction in which it operates. There are virtually no foreign currency liabilities matching these assets; therefore, this represents an exposure to movements in foreign exchange rates. The amount of assets supporting equity that is denominated in each of these foreign currencies is monitored closely by senior management. The Company also manages this exposure by periodically hedging these foreign denominated assets through the use of forward foreign exchange contracts as described under the Derivative Financial Instrument Management section.

LIQUIDITY RISK

Liquidity risk refers to the ability of the Company to meet its obligations to policyholders and creditors as they fall due. Additionally, some liquidity is always necessary for the Company to ensure flexible operations and to pursue new investments or business opportunities. There are two types of liquidity, which may be required under various circumstances:

- operating liquidity is that which is required to meet day-to-day cash outflow obligations such as the payment of dividends, claims and expenses; and
- strategic liquidity is that which is required to meet long-term obligations or to withstand unanticipated cash demands under adverse conditions such as substantial surrenders or major investment defaults.

The Company manages liquidity risk by closely matching the amount, currency and duration of its asset and associated liability cash flows within preset limits. The level of this mismatch is monitored and includes the effect of all outstanding derivative financial instrument positions.

The Company's policy is to maintain immediate liquidity at not less than 10% of total invested assets and marketable asset liquidity at not less than 20% in each country of operation. In fact, liquidity currently exceeds the amounts required by either measure. Immediate liquidity is comprised of cash, bank deposits, approved short-term paper, committed bank lines and marketable central government securities of each jurisdiction in which the Company operates. Marketable asset liquidity is comprised of the above items as well as marketable securities of lower levels and agencies of each of these jurisdictions' governments, marketable public corporate bonds and government insured mortgages in Canada and the U.S.

MARKET RISK

Market risk is the risk that the value of an investment will decrease as a result of adverse changes in market prices caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market.

Market risk is most prevalent for the Company's investments in stocks and real estate. Investments in stocks and real estate entail greater volatility in returns over time than other investments. Because of this volatility, the Company's exposure to these investments is contained through established limits relative to the amount of supporting liabilities and equity. Stock holdings are also diversified by industry type and by corporate group.

DERIVATIVE FINANCIAL INSTRUMENT MANAGEMENT

Derivative financial instruments are financial contracts that derive their value from the value of the underlying financial assets, interest rates, foreign exchange rates or stock/bond/commodity indices. The Company is a limited end-user of derivatives and is not a creator or dealer in these instruments. It uses derivative financial instruments for purposes such as:

- asset/liability management — where the Company is able to modify a particular asset position or a portfolio profile to reflect liability characteristics within established policy limits;
- foreign currency exchange management — where the Company hedges or manages its exposure to foreign exchange volatility with respect to both its investment in foreign jurisdictions and the translation of its foreign operating results into Canadian dollars; and
- stock market fluctuations — where the Company hedges its exposure to the volatility in stock market indices due either to its own equity positions or those relating to the terms of products the Company has sold.

Derivatives are subject to Board approved investment policies. Those policies relating to financial futures limit the duration-adjusted notional amount to 10% of total General Fund assets and address interest rate and foreign currency risks. The policies relating to forwards, options and swaps set various percentage limits for potential exposures or statement values to General Fund assets and address credit risk. In addition, the Company is only permitted to deal with counter-parties with a credit rating of A+ or higher as defined by Standard & Poor's. The Company's outstanding derivative financial instruments at December 31, 1999 and the related exposures are described in note 20 to the Consolidated Financial Statements.

INSURANCE RISKS

Insurance risks include claims and pricing risk.

CLAIMS RISK

Claims risk is the risk that the Company will incur excessive mortality and morbidity claim losses on any one policy or group of policies. The Company manages this risk through establishing appropriate underwriting policies to determine the insurability of applicants and managing its exposure to large claims.

The Company's philosophy with respect to underwriting is to prudently manage the risks with due consideration given to the Company's expertise, its ability to absorb losses and expected returns. For existing products, where the Company has considerable expertise in both underwriting and claims, the Company will generally manage the risk internally. Where existing products have significant loss exposure, some form of excess loss reinsurance will generally be put in place. For newer product areas in which the Company has little experience in underwriting and claims, additional reinsurance and the advice of industry experts will generally be sought. It is the policy of the Company in underwriting cases to avoid excessive exposure with respect to any specific risk profile. In general, the Company avoids concentration by operating internationally and underwriting a wide range of cases and products within each jurisdiction.

In addition to establishing appropriate underwriting criteria to determine the insurability of applicants, the Company manages its insurance risk by limiting its exposure to life and health claims. These limits are described in note 5(f) to the Consolidated Financial Statements. To ensure that these limits continue to be appropriate, management and the Board of Directors periodically review the policies relating to the maximum risks the Company will assume.

The use of reinsurance does not relieve the Company of its primary obligations to its policyholders. Therefore, the Company is exposed to credit risk with respect to amounts ceded to reinsurers. In order to minimize its exposure to this risk, the Company generally only enters into reinsurance contracts with properly licensed, well-established and financially strong companies or ensures it has sufficient security arrangements in place.

PRICING RISK

The process of pricing products includes the estimation of many factors including future investment yields, mortality and morbidity experience, expenses, policy lapse rates and taxes. Pricing risk is the risk that actual experience in the future will not develop as estimated at the time of pricing the products. Some products are designed such that adjustments to premiums or benefits can be made for variations in experience, while for other products no such adjustment is possible.

The Company manages pricing risk by setting standards and guidelines for pricing. These standards and guidelines cover pricing methods, the setting of assumptions, profit margin objectives, required scenario analysis and documentation. Pricing assumptions are compared against actual experience on an ongoing basis. Senior financial managers in each operating division are responsible for ensuring that the design and pricing of each new product, and revisions to assumptions for existing products, are consistent with the Company's standards and guidelines. Entry into new lines of business, unusual risks not currently offered, or deviations from pricing policy are subject to prior approval of both the Company's Appointed Actuary and its Chief Financial Officer.

INTERNAL CONTROLS

The Company is responsible for providing shareholders, policyholders, creditors and regulators with assurance that its operations are properly controlled and that its financial and other risks are prudently managed. The Company has created mechanisms and procedures that ensure internal and external risks to which the Company is exposed are identified, and that appropriate and effective internal controls are developed and implemented to manage these risks, and that reliable and comprehensive systems are in place to properly monitor the effectiveness of these controls on a regular basis. The following comprises the Company's internal control framework:

- a Board of Directors that is responsible for reviewing and approving the establishment of, and compliance with, financial, investment and other policies;
- a senior management team that actively manages the operations of the Company and that has implemented organizational and procedural controls supported by information systems to manage the Company's exposure to risk; and
- an independent internal audit function, reporting to the Audit Committee of the Board, that monitors the effectiveness of these organizational and procedural controls, including the Company's compliance with OSFI's Standards of Sound Business and Financial Practices and the Quebec Guideline for Sound Risk Governance.

Year 2000 Issue

The Company makes extensive use of information technology in its operations. Insurance and financial systems are dependent upon data processing that is vulnerable to the year 2000 problem. Due to the long-term nature of the products and services administered by the Company's information technology systems, these systems have dealt with year 2000 dates prior to the year 2000 and the Company has not experienced any problems with them. The Company also exchanges electronic data with a large number of clients and suppliers and has determined that changes to these interfaces were not necessary.

The Company initiated a corporate-wide year 2000 program in 1995. The program encompassed the entire Company including all divisions and subsidiaries. A senior management steering committee was formed in 1998 to review, on a monthly basis, the progress of the year 2000 compliance. In addition to this review, the Audit Committee of the Board was updated quarterly on the status of the year 2000 project.

By March 1999, contingency plans were developed based upon the Company's established Business Continuity Planning process and adapted for year 2000. The contingency plans were focused on four points:

- taking steps prior to 2000 to mitigate any risks;
- thoroughly reviewing system outputs in January 2000 to check for any errors;
- planning to have staff available to correct any systems errors; and
- identifying the steps to be taken to maintain critical functions if errors should occur.

In 1999, the Company conducted a classroom exercise, involving more than 100 Company staff, simulating possible scenarios to test the assumptions and dependencies. Throughout the remainder of 1999, the contingency plans were reviewed regularly to ensure that any changes in business procedures were incorporated.

The system inventory, impact assessment, conversion of code, verification testing, future date testing, analysis, remediation, continued compliance, and contingency planning were completed for all of the Company's critical systems by September 30, 1999. Upon completion of the testing for year 2000 readiness, a program was implemented to ensure that any system changes remained year 2000 compliant.

The Company completed a business partner risk assessment program to assess the possible effects on the Company's operations relating to the year 2000 readiness of those outside parties with which it conducts business. The failure of such parties to ensure the proper functioning of their information systems and software could have had a material impact on the Company's operations and financial results. The Company actively participated with its significant business partners to minimize the risk of non-compliance. The Company prepared contingency plans, including establishing deadline dates, in the event that third parties could not meet targeted dates for compliance. To date, there has not been any problems dealing with third parties.

During the critical period from December 31, 1999 to January 5, 2000, the Company had employees on site monitoring the systems and ensuring that they continued to operate correctly. Systems have been and will continue to be monitored subsequent to the critical period. This preparation has culminated in a successful transition to the year 2000 for all divisions of the Company and no problems have been encountered to date. There were no disruptions to the Company's business processes both during and subsequent to the critical period. However, it is not possible to conclude that all aspects of the year 2000 issue that may affect the Company, including those related to clients, suppliers, or other third parties, have been fully resolved.

Year 2000 expenditures are expensed as incurred. Total expenses incurred for the year ended December 31, 1999 amounted to $19 million. The cumulative expenses on this project have amounted to $47 million.

European Monetary Union

A new currency, the Euro, was introduced in eleven participating European countries on January 1, 1999. The Republic of Ireland is a participant while the U.K. is not. The value of the Euro was created January 1, 1999 by irrevocably fixing the conversion rates of Euro Zone currencies. Over the next two years, the Euro will be used for transactions between European central banks and in financial markets. The currency will be introduced into general circulation on January 1, 2002, at which time national currencies and the Euro will co-exist for approximately two months, and subsequently the Euro will become the only currency in use.

All companies operating in the Euro Zone or holding securities in the Euro Zone will be affected. The Company's processing of data in the U.K. and the Republic of Ireland could be in jeopardy if software and hardware modifications are not made on a timely and accurate basis. Project teams in Ireland, the U.K. and at head office in Toronto have implemented the necessary changes to the investment and financial systems software in order to be able to translate all other currencies into the Euro beginning January 1, 1999. The new systems implementation and testing has been successful to date. Euro-denominated bank accounts were also established. A detailed analysis was conducted in 1999 and work has commenced on the changes required to the policy processing systems for January 1, 2002. The costs of the modifications to existing systems have been immaterial to date.

Consolidated Financial Statements

Responsibilities for Financial Reporting

The Consolidated Financial Statements of Canada Life Financial Corporation and all the information in this annual report are the responsibility of management. The Consolidated Financial Statements have been reviewed by the Audit Committee and approved by the Board of Directors.

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles including any accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Consolidated Financial Statements contain some items which reflect the best estimates and judgements of management. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances to ensure that the Consolidated Financial Statements are presented fairly, in all material respects. Management has ensured that all financial information in this annual report is consistent with that in the Consolidated Financial Statements.

The Company maintains systems of internal accounting and administrative controls in accordance with the Standards of Sound Business and Financial Practices issued by OSFI and the Quebec Guideline for Sound Risk Governance. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and forms a proper basis for the preparation of the Consolidated Financial Statements. The Company's internal audit department assesses the systems of internal control on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing the Consolidated Financial Statements. The Board carries out this responsibility principally through its Audit Committee of independent directors. The Audit Committee meets periodically with management and the internal and external auditors to discuss auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements and the reports of the external auditors and the Appointed Actuary.

The Appointed Actuary is appointed by the Board of Directors and is required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form the opinion. The Appointed Actuary makes use of the work of the external auditors to attest to the accuracy of the policy data used in the valuation. The Appointed Actuary is required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. This analysis tests the capital adequacy of the Company until December 31, 2003 under adverse economic and business conditions.

Ernst & Young LLP have been appointed as the external auditors. It is the external auditors' responsibility to report to the shareholders regarding the fairness of presentation of the Company's Consolidated Financial Statements. The external auditors make use of the work of the Appointed Actuary in their audit. The Auditors' Report outlines the scope of their audit and their opinion. The external auditors have full and unrestricted access to the Audit Committee.

February 7, 2000

D. A. Nield
Chairman of the Board,
President and Chief Executive Officer

R.M. Smithen
Executive Vice-President
and Chief Financial Officer

Consolidated Balance Sheet

As at December 31
(in millions of Canadian dollars)

	1999	1998
	$	$
ASSETS		
General Fund		
Invested assets (note 7(a))		
Bonds	16,400	13,650
Mortgages	7,117	6,351
Common and preferred stocks	1,868	1,833
Real estate	974	993
Policy loans	942	489
Short-term investments	119	222
Cash and cash equivalents (note 3(l))	914	1,049
Other	673	565
Total invested assets	29,007	25,152
Premiums receivable	203	132
Investment income due and accrued	363	296
Goodwill (note 3(j))	173	169
Other assets (note 11(c))	982	535
Total General Fund	30,728	26,284
Segregated Funds	21,875	18,672
LIABILITIES AND EQUITY		
General Fund		
Liabilities		
Actuarial liabilities (notes 4 and 8)	23,721	19,614
Benefits payable and provision for unreported claims	561	338
Policyholders' amounts left on deposit	441	286
Provision for future policyholder dividends and experience rating refunds	330	312
Policy liabilities	25,053	20,550
Bank loans and mortgages on real estate (note 9)	4	42
Net deferred gains (note 7(d))	1,326	1,380
Other liabilities (note 12)	918	1,068
	27,301	23,040
Subordinated debentures (note 10)	550	550
EQUITY		
Policyholders' equity	-	2,694
Participating policyholders' equity	47	-
Shareholders' equity		
Share capital (note 14)	317	-
Retained earnings	2,513	-
	2,877	2,694
Total General Fund	30,728	26,284
Segregated Funds	21,875	18,672

(see accompanying notes)

On behalf of the Board:

D. A. Nield
Chairman of the Board,
President and Chief Executive Officer

T. Iain Ronald
Chairman of the Audit Committee

Consolidated Statement of Equity

For the year ended December 31

(in millions of Canadian dollars)

(note 2)	1999 Prior to demutualization Policyholders' equity	1999 As at and subsequent to demutualization Participating policyholders' equity	1999 As at and subsequent to demutualization Shareholders' retained earnings	1999 Share capital	1999 **Total**	1998 Policyholders' equity
	$	$	$	$	**$**	$
Policyholders' surplus, balance beginning of year	2,599	-	-	-	**2,599**	2,511
Demutualization and initial public offering costs, net of tax	(65)	-	-	-	**(65)**	-
Net income prior to demutualization	249	-	-	-	**249**	88
Balance, at demutualization	2,783	-	-	-	**2,783**	2,599
Transfer to shareholders' retained earnings	(2,783)	-	2,783	-	**-**	-
Distributions from policyholders' surplus to participating policyholders at demutualization (note 14)	-	-	(234)	-	**(234)**	-
Transfer to participating policyholders' surplus (note 13(iii))	-	50	(50)	-	**-**	-
Issue of common shares (note 14)	-	-	-	317	**317**	-
Net income (loss) subsequent to demutualization	-	(1)	72	-	**71**	-
Balance, end of year	-	49	2,571	317	**2,937**	2,599
Currency translation account						
Balance, beginning of year	95	-	-	-	**95**	-
Transition adjustment (note 3(e))	-	-	-	-	**-**	95
Change prior to demutualization	(92)	-	-	-	**(92)**	-
Balance, at demutualization	3	-	-	-	**3**	95
Transfer to shareholders' retained earnings	(3)	-	3	-	**-**	-
Change subsequent to demutualization	-	(2)	(61)	-	**(63)**	-
Balance, end of year	-	(2)	(58)	-	**(60)**	95
Total equity	-	47	2,513	317	**2,877**	2,694

(see accompanying notes)

Consolidated Statement of Net Income

For the year ended December 31

(in millions of Canadian dollars)

	1999	1998
	$	$
REVENUES		
Premium income		
Participating insurance and annuities	**833**	778
Non-participating:		
Annuities	**1,584**	1,491
Individual life and health insurance	**808**	663
Group life and health insurance	**1,277**	927
Reinsurance	**202**	-
General insurance	**117**	121
	4,821	3,980
Net investment income (note 7(c))	**2,327**	1,964
Fee income (note 3(k))	**393**	331
	7,541	6,275
EXPENDITURES		
Payments to policyholders and beneficiaries		
Life, health and general benefits	**1,560**	1,065
Annuity payments	**1,032**	960
Maturities, surrender payments and other	**1,872**	1,721
Participating policyholder dividends	**286**	256
	4,750	4,002
Increase in actuarial liabilities (note 8(a))	**1,133**	1,061
Commissions	**344**	244
General expenses	**723**	690
Premium taxes	**57**	44
Interest expense (notes 9 and 10)	**42**	24
	7,049	6,065
Net income before income taxes and goodwill expense	**492**	210
Income taxes (note 11)	**134**	60
Net income before goodwill expense	**358**	150
Goodwill expense (note 3(j))	**38**	62
Net income	**320**	88
Net income (note 2):		
Net income prior to demutualization	**249**	88
Net income (loss) subsequent to demutualization attributable to:		
Participating policyholders	**(1)**	-
Shareholders	**72**	-
	320	88
Earnings per share excluding goodwill expense (note 15)	**0.56**	-
Earnings per share (note 15)	**0.46**	-

(see accompanying notes)

Consolidated Statement of Cash Flows

For the year ended December 31
(in millions of Canadian dollars)

	1999	1998
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	320	88
Items not affecting cash and short-term investments		
Increase in actuarial liabilities and other policy liabilities	1,150	1,090
Amortization of net deferred gains, amortization of net foreign currency translation gains and amortization of net discounts on bonds and mortgages	(352)	(321)
Other, including future income taxes	33	(32)
	1,151	825
Net change in other operating assets and liabilities		
Other liabilities	(290)	207
Other assets	12	(340)
	(278)	(133)
Increase due to operating activities	873	692
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales, maturities and scheduled redemptions of:		
Bonds	19,730	10,682
Mortgages	3,811	1,487
Common and preferred stocks	2,542	1,339
Real estate	111	610
Other investments	431	50
Purchases and issues of:		
Bonds	(20,788)	(10,940)
Mortgages	(3,949)	(1,870)
Common and preferred stocks	(2,590)	(1,263)
Real estate	(104)	(584)
Other investments	(284)	(275)
Short-term investments	94	81
Policy loans	(5)	(17)
Acquisition (note 6)		
Purchase price	(163)	-
Cash and cash equivalents	252	-
Decrease due to investing activities	(912)	(700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Subordinated debentures	-	300
Bank loans and mortgages on real estate	(38)	(37)
Payment to participating policyholders at demutualization	(234)	-
Issue of common shares (note 14)	317	-
Demutualization and initial public offering costs prior to income tax provisions	(83)	-
Increase (decrease) due to financing activities	(38)	263
Effect of changes in exchange rates on cash and cash equivalents	(58)	65
Net increase (decrease) in cash and cash equivalents for the year	(135)	320
Cash and cash equivalents, beginning of year	1,049	729
Cash and cash equivalents, end of year	914	1,049
Supplementary disclosure of cash flow information:		
Interest paid on subordinated debentures, bank loans and mortgages on real estate	42	25
Income taxes paid, net of refunds	182	158

(see accompanying notes)

Consolidated Statement of Changes in Segregated Funds

For the year ended December 31

(in millions of Canadian dollars)

	1999	1998
	$	$
ADDITIONS TO SEGREGATED FUNDS:		
Premiums and transfers from the General Fund	**2,737**	2,118
Transfer of seed money (to) from the General Fund	**-**	(11)
Net investment income	**579**	526
Acquisition of Segregated Fund business (note 6)	**767**	-
Net increase in fair value of investments	**3,147**	1,345
Currency translation adjustment	**-**	923
	7,230	4,901
DEDUCTIONS FROM SEGREGATED FUNDS:		
Withdrawals, benefit payments and transfers to the General Fund	**2,212**	1,983
Operating expenses	**345**	308
Tax provision	**117**	74
Currency translation adjustment	**1,353**	-
	4,027	2,365
Net additions to Segregated Funds for the year	**3,203**	2,536
Segregated Funds, beginning of year	**18,672**	16,136
Segregated Funds, end of year	**21,875**	18,672
CONSISTING OF:		
Bonds	**2,277**	2,708
Mortgages	**1**	12
Common and preferred stocks	**17,921**	13,860
Real estate	**666**	654
Cash and short-term investments	**1,384**	1,657
Investment income due and accrued	**53**	48
Tax liability	**(296)**	(236)
Due (to) from brokers and others	**(131)**	(31)
	21,875	18,672

(see accompanying notes)

Notes to the Consolidated Financial Statements

For the years ended December 31, 1999 and 1998
(in millions of Canadian dollars)

1. NATURE OF OPERATIONS

Canada Life Financial Corporation (the "Company") was incorporated on June 21, 1999 and was formed for the purpose of becoming the holding company of The Canada Life Assurance Company ("Canada Life") which demutualized on November 4, 1999. Demutualization is the conversion of an enterprise from mutual ownership by participating policyholders to public ownership by common shareholders. The assets, liabilities, equity and results of operations included in these Consolidated Financial Statements prior to the date the Company was incorporated are those of Canada Life as previously reported.

Through its wholly-owned subsidiary, Canada Life, the Company offers insurance and other protection and wealth management products and services to individuals and groups primarily in Canada, the United Kingdom, the United States and the Republic of Ireland; and in several other jurisdictions including Hong Kong, Macau, Bermuda, Bahamas and Brazil. In addition, Canada Life offers reinsurance services, general insurance (primarily home and automobile policies) in Canada and unit trusts (which are comparable to mutual funds) in the United Kingdom.

2. DEMUTUALIZATION

Canada Life demutualized on November 4, 1999, whereby it converted from a mutual life insurance company to one with common shares. At the date of demutualization, Canada Life became a wholly-owned subsidiary of the Company by issuing all of its common shares to the Company. In addition, as part of the demutualization:

a) as described in note 14, the Company issued common shares from treasury, or in certain circumstances paid cash or granted policy credits to eligible policyholders of Canada Life. The Company also issued common shares from treasury that were subscribed for by the public.

b) as described in note 13, the Company restructured the participating account of Canada Life, including the establishment of a closed block sub-account.

c) as outlined in the Consolidated Statement of Equity, $2,848 million formerly in policyholders' surplus, less demutualization and initial public offering costs of $65 million net of tax, was transferred to the shareholders' account and reclassified as shareholders' retained earnings.

Demutualization has resulted in a division of net income in 1999 to reflect the change in ownership. Prior to demutualization on November 4, 1999, $249 million of net income was attributable to the Company's policyholders. Subsequent to demutualization, net income has been separated between that attributable to the participating policyholders and that attributable to shareholders. Net income attributable to shareholders was $72 million and a net loss of $1 million was attributable to participating policyholders. For purposes of calculating pro forma earnings per share in note 15, net income attributable to shareholders was $321 million.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its Consolidated Financial Statements in accordance with generally accepted accounting principles ("GAAP") for life insurance enterprises including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI"). There are no differences between GAAP and the accounting requirements of OSFI.

The significant accounting policies followed in the preparation of these Consolidated Financial Statements are summarized below:

a) Basis of consolidation

These financial statements consolidate the operating results and financial position of the Company and its subsidiaries.

b) Valuation of invested assets held for the General Fund

(i) Bonds and mortgages

Bonds, including asset-backed fixed term securities, and mortgages are carried at amortized cost.

The difference between the proceeds on the sale of a bond or mortgage prior to maturity and its carrying value is considered to be an adjustment of future portfolio yield and is deferred on the Consolidated Balance Sheet and amortized to net income over the remaining term to maturity.

(ii) Stocks and real estate

Portfolio investments in stocks and real estate, which include Company-occupied premises, are carried at a value which is adjusted toward fair value each year. The adjustment for stocks is 15% per annum of the difference between carrying value and year-end fair value. The fair value adjustment for real estate is 10% per annum of the difference between carrying value and appraised value. Appraised value is determined annually based on a combination of internal appraisals established by the Company and independent appraisals. All real estate properties are independently appraised at least once every three years.

Net realized gains and losses on the disposal of stocks and real estate are deferred on the Consolidated Balance Sheet and amortized to net income on a declining balance basis at 15% per annum for stocks and at 10% per annum for real estate.

(iii) Policy loans

Policy loans are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(iv) Other invested assets

Other invested assets generally include the Company's investment in equipment leases, limited partnerships, and equity investments in which the Company has the ability to exercise significant influence. Equipment leases are carried at cost less accumulated depreciation. Equity investments and limited partnerships are carried at cost plus the Company's pro rata share of the investees' net income (loss), less any distributions paid to the Company during the year.

(v) Impaired investments and provisions for losses

Impaired investments include all loans with payments of 90 days or more in arrears unless their repayment has been insured by a government authority or representative thereof. Impaired investments also include loans, which are not in arrears, but where management has determined that an impairment in value exists.

The carrying value of the Company's investment in a bond or mortgage is reduced by a specific provision for loss to the extent an impairment in value is deemed to exist. A specific provision for loss is established whenever there is a decline in the value of a bond, which is other than temporary, or when the recovery of the principal and accrued interest on a mortgage is in doubt and the value of the underlying security is also impaired. A specific provision for loss is only reduced as a result of a write-off or sale of the impaired investment or if the conditions that caused the impairment no longer exist. Accrual of interest is discontinued and previously accrued interest is reversed on impaired bonds and impaired mortgages where payments are 90 days or more in arrears.

Property that is acquired due to a mortgage foreclosure and held for resale is classified as real estate and is valued at the lower of the amortized cost of the mortgage at the time of foreclosure and net realizable value of the property. Any losses on foreclosure and subsequent adjustments to net realizable value are recognized in net income immediately.

The carrying value of the stock portfolio or the real estate portfolio is written down to fair value immediately if there is other than a temporary decline in the value of either portfolio. The Company treats the stock and real estate portfolios as separate portfolios for the purpose of assessing whether permanent impairment exists.

In addition to specific provisions noted above for existing asset impairments, the Company provides for potential future asset defaults through the reduction of the assumed investment yields used in the calculation of the actuarial liabilities as disclosed in note 4(a) and as required by the Canadian Institute of Actuaries (the "CIA") and OSFI.

c) Fair value

(i) Bonds and mortgages

Fair value of publicly traded bonds and asset-backed fixed term securities is determined using quoted market prices. The fair value of mortgages and bonds that are not publicly traded is determined by discounting the expected future cash flows related to these loans at market interest rates.

(ii) Common and preferred stocks

Fair value of common and preferred stocks is determined using quoted market prices. The fair value of common and preferred stocks that are not publicly traded is determined by discounting expected future cash flows at risk adjusted rates of return.

(iii) Real estate

The fair value of real estate is determined based on the appraised value as described in note 3(b)(ii).

(iv) Other invested assets and policy loans

The fair value is generally estimated to equal carrying value for other invested assets and policy loans.

(v) Subordinated debentures

The fair value of the Company's subordinated debentures is determined based on the value in the market for equivalently rated securities of similar term.

d) Segregated Funds

The Company manages certain funds, which are segregated from the General Fund of the Company. This business includes Canadian segregated annuity funds; unit-linked life insurance and annuity business in the United Kingdom and the Republic of Ireland; and variable annuity separate account business in the United States. The net assets of these funds are carried at fair value and a corresponding amount is reported as a liability.

e) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars using the rates of exchange in effect at the balance sheet date and revenues and expenditures are translated into Canadian dollars at average rates of exchange during the year.

Until the end of 1998, the Company classified its operations in Canada, the United Kingdom, the United States and the Republic of Ireland as integrated and, as such, realized and unrealized foreign currency gains and losses were deferred on the Consolidated Balance Sheet and amortized to income at 15% per annum.

In recognition of the continuing decentralization of the management of these operations, the Company classified its operations as self-sustaining at December 31, 1998. As a result, the net deferred foreign currency gain balance as at December 31, 1998 of $95 million was reclassified from liabilities to the currency translation account, a separate component of policyholders' surplus on the Consolidated Statement of Equity. Future foreign currency gains and losses arising on the translation of the accounts of the Company's foreign operations will be recorded as a direct adjustment to the currency translation account.

f) Income taxes

The Company uses the liability method of tax allocation. Future income tax assets and liabilities reflect the net tax effects of temporary differences between assets and liabilities reported for financial statement purposes and those reported for income tax purposes.

g) Employee future benefit liabilities

The Company maintains defined benefit pension plans and provides other post-retirement benefits such as post-retirement life, health and dental insurance benefits for its employees and agents. The assets supporting the trusteed pension plans of the Company are held in separate trusteed pension funds. The remaining benefits are included in other liabilities and are supported by General Fund assets of the Company.

Pension and other post-retirement benefit costs for the year are based on the estimated benefits earned by the employees and agents during the year. Pension plan surpluses or deficits, which include any adjustments arising from experience gains and losses, changes in assumptions and plan amendments are amortized to income over the expected average remaining service life of plan members. Adjustments due to changes in other post-retirement benefits are included in income in the year in which they occur.

h) Derivative financial instruments

The Company utilizes derivative financial instruments, including swaps, forward contracts, futures and options, when appropriate, to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates and stock market indices. Gains and losses resulting from these derivative financial instruments are included in income on a basis consistent with the underlying positions being hedged.

i) Reinsurance

The Company's premium income, payments to policyholders and beneficiaries, actuarial liabilities and increase in actuarial liabilities are all shown net of amounts ceded to, or including amounts assumed from, other insurers.

j) Goodwill

Goodwill represents the excess of cost over the estimated fair value of the net assets acquired as at the date of acquisition. Goodwill is generally amortized to income on a straight-line basis over ten years.

Management annually assesses the recoverability of unamortized goodwill. Unamortized goodwill that is attributed to economies of scale to be realized on the integration of businesses acquired is charged to income to the extent it is no longer recoverable from the expected future unrealized benefit of such economies of scale. On this basis, unamortized goodwill attributed to economies of scale is charged to income immediately when the economies of scale are either recognized in the valuation of the liabilities or are no longer expected to occur. The recoverability of other goodwill is assessed based on discounted future cash flow projections (not including future economies of scale) from the businesses acquired.

k) Fee income

Fee income primarily includes fees earned from the management of the Company's Segregated Fund assets and fees earned from investment management services provided by subsidiary companies.

l) Cash and cash equivalents

The Company has adopted the new recommendations issued by the Canadian Institute of Chartered Accountants ("CICA") on Cash Flow Statements, including the definition of cash equivalents which is short-term investments with original maturities at acquisition of three months or less. Prior to this change, short-term investments included those with maturities of one year or less. This change was applied retroactively including the restatement of 1998 comparative figures. There was no effect on net income.

4. SIGNIFICANT ACTUARIAL POLICIES

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commissions and policy maintenance expenses for all insurance and annuity policies in force with the Company. In addition, CICA Accounting Guideline 9 requires that the determination of the actuarial liabilities include the discounting effect of future income taxes relating directly to items included in the computation of these liabilities. The Company's Appointed Actuary is responsible for determining the amount of the actuarial liabilities such that sufficient funds will be available in the future to meet the Company's obligations. The valuation methods used by the Appointed Actuary are determined using generally accepted actuarial practices, according to standards established by the CIA.

The process of determining actuarial liabilities involves the estimation of the occurrence of events, which may or may not happen until many years in the future and the risks of misestimation vary in proportion to the length of the estimation period and the potential volatility of each assumption. Because of this, the setting of assumptions for these events is critical.

The Company's valuation methods involve the use of best estimates for the following assumptions: investment yields including asset defaults, mortality, morbidity, expenses, policyholder dividends, and policy lapses and surrenders. Actual experience is monitored against these assumptions to ensure that they remain reasonable. Any change in assumptions will cause a corresponding change in actuarial liabilities which is recognized in income immediately.

Because of the uncertainties involved in this process, best estimate assumptions are adjusted by margins for adverse deviations, which provide for possible unfavourable deviations from expected experience.

These margins increase actuarial liabilities and reduce the net income that otherwise would be recognized at the inception of a policy. Over time, actual experience will determine the adequacy of these margins and any excess margins will be released, resulting in an immediate decrease in actuarial liabilities and an increase in net income in that year.

The following is a description of the methods used to calculate the best estimates for the significant assumptions and the margins for adverse deviations used in the actuarial valuation process.

a) Investment yields

The Company maintains specific funds of assets to back each major line of business in each country. The amount and timing of the cash flows relating to both the assets and actuarial liabilities in these funds are matched within predetermined limits, thereby reducing the uncertainty in selecting the valuation investment yields used in calculating the actuarial liabilities.

Assets in annuity funds consist primarily of bonds and mortgages. The investment yields used to value annuity liabilities are set based on studies of cash flows of both assets and liabilities under a number of economic scenarios. The scenarios include rapid increases or decreases in interest rates as well as changing patterns of these rates. Asset cash flows are reduced by expected future asset defaults, prepayments and expenses. Liability cash flows estimate policyholder actions that might arise as a result of changes in interest rates. The investment yields chosen for valuing annuities are generally based on the most adverse scenario tested.

For participating life insurance business, the valuation investment yields are based on the yields required to support the current dividend scales, with adjustments to allow for time lags in adjusting dividend rates, and deductions to allow for future asset defaults, investment expenses and taxes payable on investment income.

For non-participating insurance business, the valuation investment yields are based on the gross yield of supporting assets and an assumption of a declining reinvestment interest rate environment with deductions to allow for future asset defaults, investment expenses and taxes payable on investment income.

b) Mortality

Mortality relates to the incidence of death. For life insurance, the Company conducts annual mortality studies for each country and line of business. The Company's assumptions are derived by expressing its own average experience over the last five years as a percentage of the most recent industry experience tables. Allowance is made for additional mortality due to AIDS through a combination of the Company's own experience and additional factors based on the CIA guidance notes.

For major payout annuity blocks of business, the Company conducts annual mortality studies and the rates used are based on an average experience over the last five years. In the case of smaller blocks of annuity business where the experience is too small to be reliable, inter-company pension experience tables are used. Suitable projection factors reflecting industry experience are used in all cases to allow for the improving mortality trends.

c) Morbidity

For people who are currently not disabled, the rate of morbidity refers to the incidence of sickness and accidents. The morbidity assumptions for individual policies are based on recent internal studies translated into various factors applied to standard industry morbidity tables. For group policies, the premium can be changed each year due to changing claims experience and, therefore, the liability is set equal to a portion of the premiums paid in advance.

For people who are disabled, the rate of morbidity refers to the termination of disability due to death or recovery. The termination assumptions are based on recent internal studies and translated into factors applied to standard industry tables.

d) Expenses

Actuarial liabilities include amounts to provide for the costs of administering policies in force such as the cost of collecting premiums, processing and adjudicating claims, periodic communications with policyholders, related indirect expenses and a share of overhead costs. Allowances for expenses are based on the Company's most recent internal cost analysis with adjustments to the current valuation year. The internal cost analysis is reviewed and updated annually. These expenses are projected into the future with allowances for inflation.

e) Policyholder dividends

Policy liabilities include the present value of the estimated future payments of participating policyholder dividends including terminal bonus dividends for the United Kingdom and the Republic of Ireland. Dividends paid to participating policyholders are calculated in accordance with the dividend policy established by the Board of Directors.

f) Policy lapses and surrenders

Although a policy contract may call for the payment of premiums over the full term of the policy, policyholders may choose not to continue to pay premiums thereby allowing their policy to lapse. Policyholders may also choose to surrender their policy in return for the policy's cash surrender value. Policy termination rate assumptions are based on the Company's recent experience by country and line of business. For certain products the actuarial liability decreases as policy termination rates increase. On such products, very low policy termination rates are assumed in establishing the liabilities.

g) Margins for adverse deviations

As noted above, all assumptions used in the calculation of actuarial liabilities are based on best estimates. In addition, margins for adverse deviations are included in assumptions used in the actuarial valuation process. The range for these margins is prescribed in guidelines issued by the CIA. The Company's position within the range depends on the risk profile of the particular line of business. The majority of the Company's business is low risk so that margins at the low end of the range, as prescribed by the CIA guidelines, are often justifiable. However, the Company often follows a more prudent practice of establishing margins generally close to the middle of the permissible range.

5. MEASUREMENT UNCERTAINTY AND RISKS

a) Measurement uncertainty

Measurement uncertainty relates to the uncertainty in the determination of the amount at which an item is recognized in the Consolidated Financial Statements. As described in note 4, determination of the actuarial liabilities is complex, making these amounts potentially subject to the highest level of measurement uncertainty for the Company. Their valuation varies depending on the nature of the underlying products and on the variety of assumptions used for investment yields, mortality, morbidity, expenses, policyholder dividends and policy lapses and surrenders. Given the long-term nature of actuarial liabilities and the incorporation of margins for adverse deviation into the assumptions used, a fluctuation in actual experience compared to any one assumption in the near term would generally not be expected to have a significant effect on the financial results.

Changes in those assumptions, which have had a significant impact on the calculation of the actuarial liabilities in 1999, have been described in note 8(a). With respect to the remaining assumptions, either the impact on the actuarial liabilities was relatively minor, or no change in the assumption was required because the actual experience was generally in line with the assumption used.

b) Interest rate risk

Interest rate risk is the risk that the economic value of the Company is adversely impacted by changes in interest rates. As interest rates change, the economic values of the Company's fixed interest assets and liabilities change. For a perfectly matched portfolio of assets and liabilities, the change in the economic value of assets is offset by the change in the economic value of liabilities and the economic value of the Company is not affected. The degree of interest rate risk is measured by the mismatch between the assets and the liabilities of the Company. The maximum degree of mismatch permitted is set out in the Company's Investment Policy as approved by the Board of Directors.

The interest rate risk associated with the Company's annuity and pension products is of particular importance because these products constitute approximately 61% of the Company's General Fund actuarial liabilities. The timing and amount of the Company's obligations under these products can be determined with reasonable certainty and the mismatch positions of the assets supporting these liabilities is monitored quarterly to measure compliance with the limits set out in the Company's Investment Policy.

The following table shows the estimated amount of the future asset and liability cash flows associated with the Company's annuity and pension products that were in force at December 31, 1999 and reflects the appropriate repricing or maturity date. The cash flow gap between the assets and the liabilities is also included. These cash flows include the effect of any off-balance sheet derivative financial instruments the Company has entered into for asset/liability management purposes.

(in millions of Canadian dollars)

	Repricing or Maturity Date				
	Less than 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years
	$	$	$	$	$
Assets	2,621	7,146	4,781	5,910	4,616
Liabilities	2,613	7,262	4,453	5,814	4,865
Cash flow gap	8	(116)	328	96	(249)

Two related methods are used by the Company to measure and monitor the interest rate risk associated with the Company's annuity and pension products.

(i) Duration mismatch

Duration is defined as the time weighted average life of an asset or liability and measures the sensitivity of the economic value of assets and liabilities to changes in interest rates. For example, the economic value of assets or liabilities with longer terms is more sensitive to changes in interest rates than the economic value of assets or liabilities with shorter terms. This is reflected in the duration measure. The degree of mismatch can be measured as the difference between the duration of assets and the duration of liabilities. When the duration of assets exceeds the duration of liabilities, an increase in interest rates will result in a decrease in economic value. Conversely, when the duration of assets is less than the duration of liabilities, a decrease in interest rates will result in a decrease in economic value.

The following table indicates the duration mismatch that is associated with the Company's annuity and pension products as at December 31, 1999:

Asset duration	**6.54**
Liability duration	**6.47**
Duration mismatch	**0.07**

(ii) Net present value

In addition to duration mismatch, interest rate risk is also measured in terms of the net present value effect of interest rate changes. First, the net present value of future asset cash flows less future liability cash flows is determined using the interest rates in effect at the reporting date. The net present value is then recalculated assuming an immediate 1% increase in interest rates and an immediate 1% decrease in interest rates. The resulting change in net present value represents a measure of the degree of interest rate risk associated with a 1% change in interest rates.

The impact on the net present value of the Company's annuity and pension products of a 1% change in interest rates, as at December 31, 1999, is shown in the following table:

		$
Net present value		**322**
Impact on NPV if interest rate changed	+1%	**(37)**
Impact on NPV if interest rate changed	–1%	**31**

The margins for adverse deviations set aside in the actuarial liabilities, as described in note 4(g) take account of adverse interest rate movements which are significantly more adverse than the 1% change shown above.

c) Credit risk

Credit risk is the risk of financial loss due to the failure of a debtor to honour its obligations to the Company.

Potential areas of significant concentration of credit risk include non-investment grade bonds and non-insured mortgages which in 1999, amounted to $457 million and $6,348 million, respectively ($230 million and $5,545 million, respectively, in 1998) and represented 22%

(in millions of Canadian dollars)

(23% in 1998) of the total invested asset portfolio. The carrying values of impaired non-investment grade bonds and non-insured mortgages were $20 million and $42 million, respectively ($20 million and $50 million, respectively, in 1998) and represented less than 1% of the invested asset portfolio in both 1999 and 1998.

Credit risk associated with an individual counterparty is indicated by the Company's largest exposure to any one corporate entity's fixed term investments, including term preferred shares. The Company's largest exposure to any one corporate entity was $145 million ($154 million in 1998), all of which was fully secured.

The Company has made provisions in its Consolidated Balance Sheet for credit losses in two ways:

(i) specific provisions for assets which are currently impaired have been included through reductions in the values of the underlying assets; and
(ii) provisions have been included in the actuarial liabilities for assets that may become impaired in the future.

The amounts for these provisions are identified in note 7(b).

The Company's exposure to credit risk relating to its off-balance sheet investments in derivative financial instruments is disclosed in note 20.

d) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign exchange rates as compared to the Canadian dollar. It arises from currency mismatches between assets and liabilities and the cash flows therefrom and is due to the Company's foreign operations and the portion of its surplus maintained in foreign denominated assets.

The Company's exposure to foreign currency risk for its operating funds is minimal due to its policy of generally matching foreign denominated assets and their related cash flows to the foreign denominated liabilities they support.

The Company is also exposed to foreign currency risk as a result of foreign denominated assets supporting its surplus. This risk is partially hedged with the use of forward foreign exchange contracts.

A 1% strengthening of the Canadian dollar relative to the currencies in the foreign jurisdictions in which the Company operates would reduce shareholders' retained earnings by $18 million and net income by $2 million after taking into account the effect of any off-balance sheet derivative financial instruments that the Company has entered into for purposes of hedging against adverse changes in foreign exchange rates.

e) Liquidity risk

Liquidity risk refers to the ability of the Company to meet its obligations to policyholders and creditors as they fall due. The Company reduces its exposure to liquidity risk by closely matching the terms and cash flows of its assets and liabilities. Additionally, the Company maintains an appropriate level of liquidity by ensuring that a prescribed percentage of its assets are held in marketable investments.

The sources of liquidity are as follows:

	1999	1998
	$	$
Cash and short-term investments	**1,033**	1,271
Senior government securities	**5,708**	5,711
Other government securities and corporate bonds	**6,997**	4,924
Insured mortgages	**769**	806
Total	**14,507**	12,712

At December 31, 1999, the Company had $283 million ($268 million in 1998) available from the unused portion of revolving lines of credit.

Liquidity must be maintained especially to provide for life insurance policies, which permit policyholders to surrender their policies for a guaranteed surrender value at any time. Some annuity policies may also be surrendered prior to the end of the stated maturity dates for a value determined by the terms of the policy. The aggregate amount of outstanding cash surrender values if all policies had been surrendered as at December 31, 1999 was $15,714 million ($11,967 million in 1998). Actual cash surrenders during the year amounted to $1,647 million ($1,398 million in 1998). Policyholder dividends left on deposit with the Company can be withdrawn on demand at any time, and as at December 31, 1999 totalled $306 million ($174 million for 1998). Dividends withdrawn during the year totalled $31 million ($18 million for 1998).

f) Claims risk

Claims risk is the risk that the Company will incur excessive mortality and morbidity losses on any one policy or group of policies. In addition to establishing appropriate criteria to determine the insurability of applicants, the Company manages its claims risk by limiting its exposure to life and health claims. The claims risk for the Company is limited to its retention limit of $8 million for any individual life claim and various limits for health claims, not exceeding this limit depending on the type of coverage. To ensure that these limits continue to be appropriate, management and the Board of Directors periodically review the policies relating to the maximum risks the Company will assume. Claims in excess of these retention limits are reinsured to outside reinsurers. The Company also maintains catastrophic reinsurance coverage with outside reinsurers of up to $90 million in the event of a loss of three or more lives in the same catastrophe.

Reinsurance arrangements do not relieve the Company of its primary obligations to its policyholders. Therefore, the Company may be exposed to credit risk relating to its reinsurers. The Company's exposure to this credit risk is the total amount due from all reinsurers as at December 31, 1999 of $59 million ($61 million in 1998) and the amount by which actuarial liabilities have been reduced for reinsurance ceded as disclosed in note 8(b).

g) Uncertainty caused by the year 2000 issue

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The Company's transition to the year 2000 has not identified any material problems to date. However, it is not possible to conclude that all aspects of the year 2000 issue that may affect the Company, including those related to clients, suppliers, or other third parties, have been fully resolved.

Year 2000 expenditures are expensed as incurred. Total expenses incurred for the year ended December 31, 1999 have amounted to $19 million. The cumulative expenses on this project have amounted to $47 million.

6. ACQUISITION

Effective January 1, 1999 (the "Closing Date"), Canada Life acquired the shares of Crown Life Insurance Company of Canada ("Crown Canada"), a wholly-owned subsidiary of Crown Life Insurance Company ("Crown Life") which held the former Canadian insurance business of Crown Life. Crown Canada was amalgamated with Canada Life under Canada Life's name, effective July 1, 1999.

(in millions of Canadian dollars)

Also, effective January 1, 1999, Canada Life assumed substantially all of Crown Life's non-Canadian reinsurance business. In addition, Canada Life entered into agreements with Crown Life to provide indemnity reinsurance on the following basis:

- 80% of Crown Life's U.S. individual life and health insurance, annuity and group pension business;
- 100% of Crown Life's U.S. group life and health business; and
- 100% of Crown Life's Hong Kong and certain other foreign business.

Canada Life will acquire the 100% indemnity reinsured businesses on an assumption reinsurance basis as soon as regulatory and other approvals are obtained.

Canada Life also has the option, or under certain circumstances may be required, to acquire the common shares of Crown Life at any time after January 1, 2004. The purchase price for these shares would be the fair value of the assets backing Crown Life's common shareholders' equity. Canada Life also has the option, or may be required, to acquire, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004. If this option were exercised, Canada Life would receive assets with a value equal to the liabilities assumed. In certain circumstances Canada Life may exercise either of these options after July 1, 2000.

Canada Life paid $163 million in cash to Crown Life with respect to the acquisition. This transaction was accounted for using the purchase method. The purchase price was allocated to the net assets and liabilities acquired based on their estimated values as at the Closing Date. The amounts assigned to the Segregated Fund assets and liabilities acquired were based on their fair value as at the Closing Date.

The assets and liabilities of the acquired operations as at the Closing Date were as follows:

	$
Assets	
General Fund	
Invested assets	4,235
Other assets	657
	4,892
Segregated Funds	767
	5,659
Liabilities	
General Fund	
Policy liabilities	4,419
Other liabilities	291
	4,710
Segregated Funds	767
	5,477
Net assets acquired	182
Less capitalized costs	58
	124
Total consideration paid in cash	163
Goodwill	39

The results of operations from the above acquired and reinsured businesses are included in these Consolidated Financial Statements from the Closing Date.

(in millions of Canadian dollars)

7. ANALYSIS OF GENERAL FUND INVESTMENTS

a) Invested assets

	Carrying value of unimpaired investments	Carrying value of impaired investments	Total carrying value of investments	Unrealized gains	Unrealized losses	Fair value of investments
	$	$	$	$	$	$
1999						
Bonds						
Government – Canada	**2,646**	**-**	**2,646**	**95**	**(100)**	**2,641**
Government – foreign	**4,040**	**-**	**4,040**	**158**	**(107)**	**4,091**
Corporate and other	**9,690**	**24**	**9,714**	**452**	**(260)**	**9,906**
Mortgages						
Residential	**2,531**	**-**	**2,531**	**102**	**(39)**	**2,594**
Non-residential	**4,544**	**42**	**4,586**	**184**	**(68)**	**4,702**
Common and preferred stocks	**1,854**	**14**	**1,868**	**714**	**(72)**	**2,510**
Real estate (including foreclosed properties)	**964**	**10**	**974**	**220**	**(44)**	**1,150**
Other invested assets	**2,644**	**4**	**2,648**	**6**	**(1)**	**2,653**
Total	**28,913**	**94**	**29,007**	**1,931**	**(691)**	**30,247**
	$	$	$	$	$	$
1998						
Bonds						
Government – Canada	2,955	-	2,955	375	(2)	3,328
Government – foreign	3,343	-	3,343	523	-	3,866
Corporate and other	7,327	25	7,352	852	(60)	8,144
Mortgages						
Residential	2,461	-	2,461	237	(1)	2,697
Non-residential	3,840	50	3,890	321	(1)	4,210
Common and preferred stocks	1,817	16	1,833	720	(70)	2,483
Real estate (including foreclosed properties)	973	20	993	179	(70)	1,102
Other invested assets	2,321	4	2,325	-	-	2,325
Total	25,037	115	25,152	3,207	(204)	28,155

Invested assets of the Company with a carrying value of $25,627 million ($22,003 million for 1998) and a fair value totalling $26,660 million ($24,788 million for 1998) and the cash flows derived therefrom support the actuarial and other liabilities of the operating funds and the non-operating fund liabilities disclosed in note 8(c). Changes in the fair value of these assets generally will not cause a corresponding change in equity.

Invested assets with a carrying value of $3,380 million ($3,149 million for 1998) and a fair value totalling $3,587 million ($3,367 million for 1998) support the shareholders' equity and subordinated debentures of the Company. Changes in the fair value of these assets would result in unrealized gains or losses, which would ultimately cause a corresponding change in shareholders' equity. In addition, the Company has recorded net deferred realized gains relating to the sale of assets supporting shareholders' equity of $183 million ($316 million for 1998). These net deferred realized gains and the unrealized gains or losses will be amortized into retained earnings in the future in accordance with the accounting policies described in note 3(b).

(in millions of Canadian dollars)

The carrying value and fair value of bonds, by contractual maturity, at December 31, 1999 is as follows:

	Carrying value	Fair value
	$	$
Due in one year or less	911	914
Due after one year through five years	3,502	3,491
Due after five years through ten years	3,292	3,304
Due after ten years	8,695	8,929
Total	16,400	16,638

b) Provisions for losses

The carrying values of impaired investments have been reduced by the following provisions for losses:

	1999	1998
	$	$
Bonds	**16**	29
Mortgages	**38**	40
Common and preferred stocks	**3**	3
Real estate (including foreclosed properties)	**12**	23
Other invested assets	**1**	1
Total	**70**	96
The change in the provisions for losses for the year is as follows:		
Provisions for losses, beginning of year	**96**	114
Net decrease in provisions for losses on impaired investments (note 7(c))	**(25)**	(20)
	71	94
Effect of changes in currency translation rates	**(1)**	2
Provisions for losses, end of year	**70**	96

The net decrease in provisions for losses on impaired investments includes write-offs on restructured investments of $1 million ($2 million for 1998).

In addition to the above specific provisions, actuarial liabilities as at December 31, 1999 include $338 million ($287 million for 1998) to provide for potential future asset defaults.

(in millions of Canadian dollars)

c) Net investment income

	1999	1998
	$	$
Interest	**1,876**	1,583
Dividends	**66**	61
Net rents	**82**	68
Amortized net gains from:		
Common and preferred stocks	**178**	180
Real estate	**20**	10
Bonds	**101**	72
Mortgages	**10**	7
Foreign currency translation (note 3(e))	**-**	16
Sundry	**44**	17
Losses on impaired investments:		
Net decrease in provisions for losses on impaired investments (note 7(b))	**25**	20
Write-offs and net realized gains (losses) on sale of impaired investments	**(25)**	(29)
Investment expenses	**(50)**	(41)
Total	**2,327**	1,964

d) Net deferred gains

Net deferred gains are calculated in accordance with note 3(b) and include deferred realized gains and losses on the sale of investments. The balances are as follows:

	1999	1998
	$	$
Net deferred realized gains		
Bonds	**958**	928
Mortgages	**49**	43
Common and preferred stocks	**341**	408
Real estate	**(22)**	1
Total	**1,326**	1,380

(in millions of Canadian dollars)

8. ACTUARIAL LIABILITIES

a) Changes in actuarial liabilities

	1999			1998		
	Participating	**Non-participating**	**Total**	Participating	Non-participating	Total
	$	**$**	**$**	$	$	$
Balance, beginning of year	**3,962**	**15,652**	**19,614**	3,452	14,460	17,912
Set aside on new and existing business	**365**	**727**	**1,092**	386	555	941
Net change resulting from revised assumptions and refinements used in calculating certain liabilities*	**(171)**	**212**	**41**	(4)	124	120
	194	**939**	**1,133**	382	679	1,061
Acquisition (note 6)	**724**	**3,236**	**3,960**	-	-	-
Effect of changes in currency translation rates	**(85)**	**(901)**	**(986)**	128	513	641
Balance, end of year	**4,795**	**18,926**	**23,721**	3,962	15,652	19,614

* *Included in actuarial assumption changes for 1999 is a reserve release of $12 million related to economies of scale on the integration of past U.K. acquisitions. In accordance with the accounting policy described in note 3(j), this amount is offset by a reduction to goodwill and does not otherwise impact net income. Significant reserve increases included $158 million with respect to compensation to certain U.K. pension policyholders under Phase II of the U.K. Financial Services Authority guidelines; $55 million for anticipated mortality improvement of U.K. annuity contracts and $23 million in respect of guarantees offered under Canadian Segregated Fund and U.S. Variable Annuity contracts. Partially offsetting these increases were reductions of $169 million in respect of certain individual life liabilities arising mainly from demutualization restructuring and $24 million related to lower expenses. Additionally, there was a further net reserve strengthening of $10 million in respect of various other items.*

Included in the actuarial assumption changes for 1998 is a reserve reduction of $37 million related to economies of scale on the integration of MetLife (U.K.) Limited. In accordance with the accounting policy described in note 3(j) this amount is offset by a reduction to goodwill and does not otherwise impact net income. Significant reserve increases included: $133 million for options on certain U.K. pension policies sold before 1984 which, due to declining interest rates, are much more costly to the Company; an increase of $94 million with respect to compensation to certain U.K. pension policyholders under Phase II of the U.K. Securities Investment Board guidelines; and $67 million for anticipated mortality improvement on U.K. group annuity contracts. Partially offsetting these increases were reductions of $57 million related to lower expenses, reductions in margins for interest rate mismatches of $34 million and reductions in respect of life insurance mortality of $55 million. Additionally, there was a further net reserve strengthening of $9 million in respect of various other items.

(in millions of Canadian dollars)

b) Distribution of actuarial liabilities

	Participating	Non-participating				
	Insurance and annuities	Annuities	Individual life and health insurance	Group life and health insurance	General insurance	Total
	$	$	$	$	$	$
1999						
Canada	**2,188**	**6,256**	**1,034**	**1,068**	**60**	**10,606**
United Kingdom	**1,209**	**2,844**	**76**	**229**	**-**	**4,358**
United States	**881**	**4,729**	**1,626**	**336**	**-**	**7,572**
Republic of Ireland	**237**	**255**	**98**	**18**	**-**	**608**
International and Reinsurance	**280**	**24**	**221**	**52**	**-**	**577**
Total	**4,795**	**14,108**	**3,055**	**1,703**	**60**	**23,721**
	$	$	$	$	$	$
1998						
Canada	1,798	5,570	598	800	57	8,823
United Kingdom	1,109	2,773	(45)	199	-	4,036
United States	824	4,854	224	311	-	6,213
Republic of Ireland	231	160	127	24	-	542
International and Reinsurance	-	-	-	-	-	-
Total	3,962	13,357	904	1,334	57	19,614

Actuarial liabilities have been reduced by reinsurance ceded as follows:

	1999	1998
	$	$
Canada	**170**	46
United Kingdom	**80**	72
United States	**25**	20
Republic of Ireland	**20**	23
International and Reinsurance	**106**	-
Total	**401**	161

Notes to the Consolidated Financial Statements

For the years ended December 31, 1999 and 1998

(in millions of Canadian dollars)

c) Carrying value of assets supporting each product line

	Operating Funds					Equity, subordinated debentures and non-operating fund liabilities*	Total	
	Participating	Non-participating						
			Life and health insurance					
	Insurance and annuities	Annuities	Individual	Group	General insurance		**1999**	1998
	$	$	$	$	$	$	**$**	$
CANADA								
Bonds	1,410	3,062	738	751	157	550	**6,668**	5,898
Mortgages	433	2,826	161	325	9	10	**3,764**	3,361
Common and preferred stocks	190	40	4	3	-	208	**445**	469
Real estate (including foreclosed properties)	57	-	-	-	-	447	**504**	498
Other invested assets	592	267	86	158	8	16	**1,127**	1,080
All other assets	25	4	116	109	58	355	**667**	456
	2,707	6,199	1,105	1,346	232	1,586	**13,175**	11,762
UNITED KINGDOM								
Bonds	649	2,056	187	179	-	586	**3,657**	3,159
Mortgages	1	393	6	24	-	36	**460**	495
Common and preferred stocks	283	319	12	33	-	157	**804**	673
Real estate (including foreclosed properties)	70	175	5	21	-	123	**394**	410
Other invested assets	340	131	8	18	-	199	**696**	827
All other assets	14	169	7	8	-	219	**417**	497
	1,357	3,243	225	283	-	1,320	**6,428**	6,061
UNITED STATES								
Bonds	471	2,670	1,005	220	-	739	**5,105**	3,989
Mortgages	258	1,990	392	144	-	18	**2,802**	2,493
Common and preferred stocks	49	-	-	-	-	184	**233**	393
Real estate (including foreclosed properties)	-	9	-	-	-	31	**40**	47
Other invested assets	148	87	276	33	-	30	**574**	374
All other assets	23	139	149	14	-	64	**389**	178
	949	4,895	1,822	411	-	1,066	**9,143**	7,474
REPUBLIC OF IRELAND								
Bonds	146	164	90	24	-	104	**528**	604
Mortgages	1	-	-	-	-	-	**1**	2
Common and preferred stocks	116	119	12	-	-	139	**386**	298
Real estate (including foreclosed properties)	24	7	-	-	-	3	**34**	38
Other invested assets	23	3	-	(6)	-	-	**20**	44
All other assets	11	7	18	4	-	15	**55**	1
	321	300	120	22	-	261	**1,024**	987
INTERNATIONAL AND REINSURANCE								
Bonds	246	-	65	131	-	-	**442**	-
Mortgages	61	-	13	16	-	-	**90**	-
Common and preferred stocks	-	-	-	-	-	-	**-**	-
Real estate (including foreclosed properties)	-	-	2	-	-	-	**2**	-
Other invested assets	98	(14)	70	7	-	70	**231**	-
All other assets	27	37	49	48	-	32	**193**	-
	432	23	199	202	-	102	**958**	-
Total	5,766	14,660	3,471	2,264	232	4,335	**30,728**	26,284

** Non-operating fund liabilities include employee and agent retirement benefit liabilities and other miscellaneous liabilities of the Company.*

(in millions of Canadian dollars)

9. BANK LOANS AND MORTGAGES ON REAL ESTATE

Bank loans in the United Kingdom totalling $38 million as at December 31, 1998 were repaid during 1999.

Mortgages on real estate amounting to $4 million ($4 million for 1998) consist of a Canadian borrowing at a fixed rate of interest of 11.01% which is repayable in Canadian dollars in 2000.

Interest expense relating to bank loans was $4 million ($3 million for 1998) and is included as part of interest expense in the Consolidated Statement of Net Income. Interest expense relating to mortgages on real estate was $0.3 million ($1 million for 1998) and is included in the net rents component of net investment income in the Consolidated Statement of Net Income.

10. SUBORDINATED DEBENTURES

	Maturity	1999	1998
		$	$
Issued in 1996:			
Subordinated debentures bearing interest at a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90 day Bankers' Acceptance Rate plus 1%	2011	**250**	250
Issued in 1998:			
Series 1 subordinated debentures bearing interest at a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90 day Bankers' Acceptance Rate plus 1%*	2013	**200**	200
Series 2 subordinated debentures bearing interest at a fixed rate of 6.4%*	2028	**100**	100
Total		**550**	550

* *These were converted into public debentures on December 11, 1999.*

At December 31, 1999, the fair value of the subordinated debentures was $536 million ($583 million in 1998).

Subordinated debentures were issued by Canada Life. All of the above debentures constitute direct, unsecured and subordinated obligations of Canada Life and are redeemable at the option of Canada Life with the prior approval of OSFI. The subordinated debentures qualify as Tier 2B capital for Canadian regulatory purposes.

Interest expense relating to the subordinated debentures was $38 million ($21 million for 1998) and is included as part of interest expense in the Consolidated Statement of Net Income.

11. INCOME TAXES

a) Income tax expense

Income taxes are as follows:

	1999	1998
	$	$
Income taxes - current	**153**	162
- future	**(19)**	(102)
Total	**134**	60

(in millions of Canadian dollars)

b) Reconciliation of income tax expense

The income tax expense is derived from the expected provision at the statutory rate as follows:

	1999	1998
	$	$
Net income before income taxes and after goodwill expense	454	148
Expected provision for income taxes at the combined Canadian federal and provincial statutory rate of 44.25% (44.25% for 1998)	201	65
Adjusted for:		
Tax-exempt investment income	(15)	(19)
Foreign operations taxed at different rates and bases	(77)	(7)
Investment income tax	10	10
Large corporations and other capital taxes	3	3
Recognition of tax losses of prior years	-	(6)
Other	12	14
Income tax expense	134	60

c) Future income taxes

Other assets and liabilities include future tax assets of $543 million ($190 million in 1998) and liabilities of $4 million ($63 million in 1998) that arise from temporary differences on the following items:

	1999		1998	
	Future tax assets	Future tax liabilities	Future tax assets	Future tax liabilities
	$	$	$	$
Investments	51	-	15	-
Actuarial liabilities	30	4	-	63
Employee future benefits	67	-	53	-
Loss carryforwards	202	-	29	-
Deferred acquisition costs	152	-	90	-
Other	41	-	3	-
Total	543	4	190	63

12. OTHER LIABILITIES

Other liabilities are comprised of the following items:

	1999	1998
	$	$
Current income taxes	123	128
Premium taxes	9	10
Future tax liabilities	4	63
Accounts payable	394	410
Employee future benefits (note 3(g))	166	204
Other	222	253
Total	918	1,068

13. PARTICIPATING ACCOUNT

The Act requires the Company to maintain two accounts within its General Fund: one for its participating policies (the "participating account") and one for all of its other business (the "shareholders' account"). Through its participating account, the assets, liabilities, income and surplus relating to the Company's participating policies are recorded separately. This permits the Company to determine dividends on its participating policies based on the experience of the account relating to those policies only.

As part of demutualization, the participating account was restructured to reflect the establishment of three sub-accounts: a "closed block sub-account", an "ancillary sub-account" and a "new business sub-account".

(i) The closed block sub-account is comprised of the liabilities for guaranteed benefits, expenses and taxes, including riders or supplementary benefits, policyholders' reasonable expectations for dividends and other non-guaranteed benefits determined using best estimate assumptions. The closed block sub-account was created for eligible participating policyholders as at the date of demutualization. These amounts were estimated to be $2,913 million at December 31, 1999. The closed block sub-account established at demutualization is for the protection of policyholders' reasonable expectations and is for the sole benefit of the policyholders of the closed block. Therefore, closed block sub-account assets are not available to the shareholders' account. If at any time the value of the assets allocated to the closed block sub-account were, in the opinion of the Appointed Actuary, less than the assets required to support the liabilities, assets having a sufficient value to rectify the situation, will be transferred first from the ancillary sub-account and then, if such deficiency was expected to be permanent, from the shareholders' account. Any such transfers from the shareholders' account would be recorded as a charge to net income attributable to the shareholders' account.

(ii) The ancillary sub-account represents the margins for adverse deviation in respect of participating policies including riders or supplementary benefits, referred to in (i) and liabilities for guaranteed benefits in respect of participating Canadian group life policies issued or assumed by the Company prior to demutualization. These amounts are determined by the Appointed Actuary and were estimated to be $326 million at December 31, 1999. Assets which, in the opinion of the Appointed Actuary, are in excess of those required to support the ancillary sub-account liabilities will be transferred periodically from the ancillary sub-account to the shareholders' account. Such amounts will be recorded as income attributable to the shareholders' account. For the period November 5, 1999 to December 31, 1999, $3 million was transferred from the ancillary sub-account to the shareholders' account.

(iii) The new business sub-account is comprised of all liabilities, in respect of new participating policies issued on or after demutualization. On demutualization, $50 million of seed capital was transferred from the retained earnings of the shareholders' account to the new business sub-account, and subsequent transfers will be made, if necessary, to ensure that the assets allocated to the new business sub-account are sufficient to support the future participating policies, including riders or supplementary benefits, arising from this sub-account in the five year period subsequent to demutualization. A percentage of the earnings of the new business sub-account may be transferred to the shareholders' account as permitted by regulation. Subject to approval by OSFI, the seed capital amount together with a reasonable rate of return may be transferred to the shareholders' account once the value of the assets allocated to the new business sub-account exceeds the value, in the opinion of the Appointed Actuary, required to provide for the new business sub-account liabilities. Transfers of seed capital to the shareholders'

(in millions of Canadian dollars)

account would be returns of capital and would be recorded as adjustments to shareholders' retained earnings. A reasonable rate of return on seed capital will be recognized as income in the shareholders' account and an expense in the participating account.

In addition, prior to demutualization the Company had established several closed blocks in respect of participating policyholder business previously acquired from other companies. These closed blocks will continue to operate as they did prior to demutualization. The total liabilities related to these closed blocks was $1,447 million at December 31, 1999.

14. SHARE CAPITAL

a) Authorized:

(i) Preferred shares

There are an unlimited number of non-voting authorized preferred shares without nominal or par value, issuable in series. The by-law authorizes the Board of Directors, prior to the issue of any series of preferred shares, to fix the number of shares in, and to designate the rights, privileges, restrictions and conditions of each series, subject to the provisions of the Company's by-laws and the Insurance Companies Act (Canada) (the "Act").

(ii) Common shares

There are an unlimited number of authorized voting common shares.

(b) Issued and outstanding:

(i) Preferred shares

No preferred shares are presently issued or outstanding.

(ii) Common shares

On November 4, 1999, the Company issued 156,488,287 common shares from treasury in order to effect the demutualization and to raise additional capital.

142,260,807 common shares were issued to eligible policyholders for nil proceeds. Certain eligible policyholders, in turn, elected to sell their shares in a secondary offering facilitated by the Company at the date of demutualization. The Company received no proceeds from this secondary offering.

14,227,480 common shares were issued in an initial public offering for proceeds of $249 million. Of this amount, $234 million was used to fund payments to those eligible policyholders who were required to receive cash, to contribute to Canada Life an amount sufficient to fund policy credits for those policyholders required to receive policy credits and to fund payments to Canadian resident eligible policyholders who elected to sell their shares at the date of demutualization. The remainder of the proceeds were used, amongst other things, to help pay for the costs of demutualization.

Issued and outstanding:	Number of shares	Share value
		$
Balance, beginning of year	-	-
Shares issued at demutualization	156,488,287	249
Shares issued to underwriters under an over allotment option*	3,900,000	68
Balance, end of year	160,388,287	317

* *The Company granted the underwriters an option, exercisable for a period of 60 days after the date of demutualization to purchase up to 3,900,000 common shares from treasury at a price of $17.50 per common share. This option was exercised for the entire amount on December 15, 1999.*

The Company's legal stated capital at the date of demutualization was approximately $2.7 billion.

(in millions of Canadian dollars)

15. EARNINGS PER SHARE

For the period November 5 to December 31, 1999	
Net income before goodwill expense attributable to common shareholders	89
Net income attributable to common shareholders	72
Weighted daily average number of common shares outstanding	157,672,216
Basic earnings per common share excluding goodwill expense	0.56
Basic earnings per common share	0.46

Pro forma earnings per share for the year ended December 31, 1999 excluding and including goodwill expense was $2.24 and $2.00, respectively. Pro forma earnings per share has been calculated assuming shares issued during the year were issued January 1, 1999 and net income attributable to shareholders was $321 million.

16. MINIMUM CAPITAL REQUIREMENTS AND RESTRICTIONS

The Company is regulated by OSFI as a Canadian insurance company. OSFI requires Canadian insurance companies to maintain minimum levels of capital and surplus with respect to their worldwide insurance operations in order to provide additional assurance with respect to future solvency. These minimum levels are calculated in accordance with the Minimum Continuing Capital and Surplus Requirements ("MCCSR") issued by OSFI. The Company's policy is to maintain a MCCSR ratio well in excess of the minimum required level. At the end of 1999 the ratio was estimated to be 190%. The 1998 ratio was 212%.

The Company's United States operations must also meet minimum Risk Based Capital requirements, which are similar in nature to the Canadian MCCSR. In each of the United Kingdom and the Republic of Ireland, the Company's operations must meet solvency requirements, which require admissible assets to exceed liabilities plus a minimum margin. The Company exceeds the minimum surplus and solvency requirements in all of the foreign jurisdictions in which it operates. The Company maintains sufficient assets in each jurisdiction to meet both its policyholder obligations and local minimum surplus and solvency requirements.
The Company's ability to meet its cash requirements and pay dividends on the common shares will depend upon the receipt of dividends and other payments from Canada Life. Canada Life's insurance subsidiaries and branches are required to maintain solvency and capital standards in the jurisdictions in which they operate. These regulatory standards may effectively restrict the amount of dividends, distributions or other payments that may be made by such subsidiaries and branches to Canada Life and to the Company.

17. EMPLOYEE FUTURE BENEFITS

Based on the most recent actuarial valuations, the Company's pension plans and other post-retirement benefit arrangements as described in note 3(g) have projected benefit liabilities of $865 million in 1999 ($720 million in 1998).

The fair value of the assets supporting these pension and other post-retirement benefit arrangements as at December 31, 1999 was $1,389 million ($1,200 million in 1998).

(in millions of Canadian dollars)

18. OPERATING LEASE COMMITMENTS

The Company has contractual obligations in respect of rents payable on leased premises and equipment as follows:

Year ended December 31	
	$
2000	**46**
2001	**39**
2002	**32**
2003	**28**
2004	**33**
Subsequently	**162**
Total	**340**

Rent expense incurred for the years ended December 31, 1999 and 1998 was $43 million and $38 million, respectively.

19. SEGMENTED INFORMATION

a) Basis of segmentation

The Company manages its business and distributes its General Fund and Segregated Funds insurance and annuity products through operating divisions in Canada, the United Kingdom, the United States, the Republic of Ireland and, newly established in 1999, an International and Reinsurance division. Each operating division includes branch operations and/or subsidiary companies and is organized to meet the needs of local markets and is responsible for its own product functions.

The operating divisions are charged overhead costs for head office corporate functions using cost allocations based on services provided. In addition, the operating divisions share in the net earnings from the surplus assets maintained by the Company. Each division's share is based on internal rates of return for the division applied to its required capital level which is determined based on its MCCSR.

b) Reportable information

The Company's primary sources of revenue are:

- premium income derived from life and health insurance products that provide protection against mortality and morbidity risks, a limited range of general insurance products, consisting primarily of home and automobile policies in Canada, and annuity products which provide asset accumulation or wealth management benefits;
- net investment income; and
- fee income derived from investment management services.

Notes to the Consolidated Financial Statements

For the years ended December 31, 1999 and 1998

(in millions of Canadian dollars)

	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	**Total**
	$	$	$	$	$	**$**
1999						
General Fund						
Revenues						
Premium income						
Participating insurance and annuities	318	112	283	74	46	**833**
Non-participating:						
Annuities	571	497	466	50	-	**1,584**
Individual life and health insurance	190	238	130	232	18	**808**
Group life and health insurance	715	178	321	9	54	**1,277**
Reinsurance	-	-	-	-	202	**202**
General insurance	117	-	-	-	-	**117**
	1,911	1,025	1,200	365	320	**4,821**
Net investment income	1,011	515	659	79	63	**2,327**
Fee income	127	193	18	51	4	**393**
	3,049	1,733	1,877	495	387	**7,541**
Expenditures						
Payments to policyholders and beneficiaries	2,078	640	1,613	173	246	**4,750**
Increase (decrease) in actuarial liabilities	289	675	(47)	187	29	**1,133**
Commissions	93	75	81	34	61	**344**
General expenses	354	157	124	66	22	**723**
Premium taxes	37	-	13	3	4	**57**
Interest expense	38	3	-	-	1	**42**
	2,889	1,550	1,784	463	363	**7,049**
Net income before income taxes and goodwill expense	160	183	93	32	24	**492**
Income taxes	70	22	31	4	7	**134**
Net income before goodwill expense	90	161	62	28	17	**358**
Goodwill expense	2	33	2	-	1	**38**
Net income	88	128	60	28	16	**320**
Net income:						
Net income prior to demutualization	99	77	41	18	14	**249**
Net income subsequent to demutualization attributable to:						
Participating policyholders*	-	-	-	(1)	-	**(1)**
Shareholders	(11)	51	19	11	2	**72**
Total assets:						
Participating*	2,707	1,357	949	321	432	**5,766**
Non-participating	10,468	5,071	8,194	703	526	**24,962**
Segregated Funds						
Premiums	1,466	914	144	213	-	**2,737**
Total assets	7,648	11,453	1,026	1,747	1	**21,875**

** Of the total participating actuarial liabilities at December 31, 1999, approximately 91% represents the closed block sub-account.*

Notes to the Consolidated Financial Statements

For the years ended December 31, 1999 and 1998

(in millions of Canadian dollars)

	Canada	United Kingdom	United States	Republic of Ireland	International and Reinsurance	Total
	$	$	$	$	$	$
1998						
General Fund						
Revenues						
Premium income						
Participating insurance and annuities	273	111	322	72	-	778
Non-participating:						
Annuities	551	413	464	63	-	1,491
Individual life and health insurance	143	299	35	186	-	663
Group life and health insurance	472	156	291	8	-	927
General insurance	121	-	-	-	-	121
	1,560	979	1,112	329	-	3,980
Net investment income	904	456	532	72	-	1,964
Fee income	111	156	11	53	-	331
	2,575	1,591	1,655	454	-	6,275
Expenditures						
Payments to policyholders and beneficiaries	1,777	705	1,359	161	-	4,002
Increase (decrease) in actuarial liabilities	266	651	(7)	151	-	1,061
Commissions	61	67	78	38	-	244
General expenses	285	217	123	65	-	690
Premium taxes	28	-	13	3	-	44
Interest expense	21	3	-	-	-	24
	2,438	1,643	1,566	418	-	6,065
Net income (loss) before income taxes and goodwill expense	137	(52)	89	36	-	210
Income taxes (recovery)	64	(37)	29	4	-	60
Net income (loss) before goodwill expense	73	(15)	60	32	-	150
Goodwill expense	-	62	-	-	-	62
Net income (loss)	73	(77)	60	32	-	88
Total assets	11,762	6,061	7,474	987	-	26,284
Segregated Funds						
Premiums	985	778	182	173	-	2,118
Total assets	5,674	10,379	833	1,786	-	18,672

20. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is party to various derivative financial instruments, not all of which are reflected in the Consolidated Balance Sheet. Derivative financial instruments are financial contracts that derive their value from that of the underlying financial assets, interest rates, foreign currency rates or stock/bond/commodity indices.

Derivative financial instruments are either negotiated over-the-counter ("OTC") as a direct arrangement between two counterparties or traded on a regulated exchange. Derivative financial instruments include:

- options which are contracts giving the holder, for a fee, the right, but not the obligation, to buy or sell within a limited time the underlying financial asset at a contracted price;
- futures and forwards which impose obligations on the contracting parties to buy or sell at a future date a specified underlying financial asset at a specified price, and which may be settled in cash or through delivery; and
- swaps which are contracts obligating two parties to exchange a series of cash flows at specified intervals in the future.

The following table summarizes the notional amount, the fair value and the credit risk exposure of the Company's derivative financial instruments:

Notes to the Consolidated Financial Statements

For the years ended December 31, 1999 and 1998

(in millions of Canadian dollars)

	Interest rate contracts*		Foreign exchange contracts		Other contracts***	Total contracts
	Futures	Swaps	Forwards**	Swaps		
	$	$	$	$	$	$
1999						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	666	-	-	-	14	680
Over the counter:						
Less than 1 year	-	55	948	28	86	1,117
1 to 5 years	-	255	-	121	-	376
Over 5 years	-	1,059	-	1,012	-	2,071
Total	666	1,369	948	1,161	100	4,244
Fair value	-	22	19	10	(6)	45
Credit risk exposure						
Maximum credit risk	-	64	20	36	2	122
Potential future credit exposure	-	17	10	82	5	114
Credit equivalent amount	-	81	30	118	7	236
Risk weighted amount	-	25	6	46	2	79
	$	$	$	$	$	$
1998						
Notional amount by term to maturity						
Exchange traded:						
Less than 1 year	771	-	-	-	-	771
Over the counter:						
Less than 1 year	-	136	1,138	9	192	1,475
1 to 5 years	-	202	-	145	-	347
Over 5 years	-	1,014	-	949	-	1,963
Total	771	1,352	1,138	1,103	192	4,556
Fair value	-	74	(4)	(98)	(20)	(48)
Credit risk exposure						
Maximum credit risk	-	81	5	3	1	90
Potential future credit exposure	-	16	11	79	12	118
Credit equivalent amount	-	97	16	82	13	208
Risk weighted amount	-	28	3	32	3	66

* *The Company has purchased options to enter into interest rate swaps to hedge the exposure of adverse movements in interest rates. The notional amount for 1999 was $896 million ($1,060 million for 1998).*

** *The Company makes use of forward foreign exchange agreements to hedge the exposure of its investment in foreign operations against adverse movements in foreign exchange rates. The notional amount for 1999 was $891 million ($1,111 million in 1998).*

*** *The Company makes use of options and equity return swaps to hedge a portion of its stock portfolio against adverse movements in the stock markets. The notional amounts for the options and the equity return swaps for 1999 were $73 million and $12 million, respectively ($76 million and $116 million, respectively, in 1998).*

Definition of terms used in this table:

a) Notional amount reflects the volume of the Company's investment in derivative financial instruments. It represents the amount to which a rate or price is applied to calculate the exchange of cash flows. The amount at risk inherent in these contracts is significantly less than the notional amount.

b) Fair value of a derivative financial instrument is equivalent to the replacement cost. Fair value is an estimate of the value at which derivative instruments could be exchanged between willing parties, other than in a forced or liquidation sale. When available, quoted market prices are used for derivative financial instruments. In all other cases, fair values are based on present value estimates of the future cash flows. The fair values stated above represent the net of contracts in a receivable position and those in a payable position.

c) Credit risk exposure reflects the potential loss due to defaults by the counterparties with which the Company is dealing. Credit risk is comprised of the following components, which have been determined in accordance with guidelines provided by OSFI:

(i) Maximum credit risk represents the cost of replacing, at current market rates, all contracts, which have a positive fair value, should the counterparty default. Since no loss related to credit risk is incurred for derivative contracts with a negative fair value, only positive fair values are considered to be at risk.

(ii) Potential future credit exposure quantifies the potential for future losses, which may result from future movement in market rates.

(iii) Credit equivalent amount is the sum of maximum credit risk and the potential future credit exposure reflecting the loss which would be incurred by the Company should a counterparty default on a derivative contract either now, or at some time in the future.

(iv) Risk weighted amount estimates actual credit risk for a derivative financial instrument by applying a weighting factor based on the credit worthiness of the counterparty against the credit equivalent amount.

d) Other contracts include equity return swaps, collars and stock options.

21. CONTINGENT LIABILITIES

a) Legal proceedings

The Company has, in the normal course of business, a number of outstanding lawsuits. The aggregate liability, which may result from these lawsuits, is not considered to be a material amount.

In addition, actions have been commenced against the Company in Canada relating to the sale of whole life insurance policies on the basis that dividends would be used to pay future premiums. Three of these actions have been filed in Ontario, Quebec and British Columbia by plaintiffs seeking to have the actions certified as class actions. To date, none of these actions have been certified as class action lawsuits. Because the actions are still at a preliminary stage, the Company is unable to assess whether they will have a material impact on these Consolidated Financial Statements.

b) Prior pension sales in the United Kingdom

In the United Kingdom, life insurance companies are required by the U.K. regulators to compensate policyholders who previously acquired personal pension products offered by such companies in situations in which they could otherwise have remained in or joined employer-sponsored pension plans and who suffered a financial loss as a result.

The Company provided a liability of $118 million as at December 31, 1998. During 1999 an additional provision was made for $158 million as described in note 8(a). This was offset by net reductions relating primarily to payments to policyholders during the year and other adjustments of $37 million. The liability as at December 31, 1999 was $239 million. These amounts are net of estimated recoveries from vendors of the businesses acquired by the Company in the United Kingdom. This liability is based on management's current estimate and the amount of the actual compensation to policyholders may vary from this amount.

22. COMPARATIVE FIGURES

The 1998 comparative figures have been reclassified to conform to presentation changes adopted in 1999.

Appointed Actuary's *report*

To the Policyholders, Shareholders and Directors of Canada Life Financial Corporation:

I have valued the policy liabilities of Canada Life Financial Corporation for its Consolidated Balance Sheet as at December 31, 1999 and their change in its Consolidated Statement of Net Income and the Consolidated Statement of Equity for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the Consolidated Financial Statements fairly present the results of the valuation.

Toronto, Canada
February 7, 2000

D. A. Loney
Fellow, Canadian Institute of Actuaries

Auditors' *report*

To the Shareholders of Canada Life Financial Corporation:

We have audited the Consolidated Balance Sheets of Canada Life Financial Corporation as at December 31, 1999 and 1998 and the Consolidated Statements of Net Income, Equity, Cash Flows and Changes in Segregated Funds for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company and of the Segregated Funds as at December 31, 1999 and 1998 and the results of its operations and its cash flows and changes in Segregated Funds for the years then ended in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP

Toronto, Canada
February 7, 2000

Chartered Accountants

Six Year *review*

(in millions of Canadian dollars)

	1999	1998	1997	1996	1995	1994
	$	$	$	$	$	$
FINANCIAL POSITION						
Assets under administration						
General Fund	**30,728**	26,284	23,503	22,341	20,654	19,632
Segregated Funds	**21,875**	18,672	16,136	9,388	7,718	5,313
	52,603	44,956	39,639	31,729	28,372	24,945
Other assets under administration*	**2,526**	2,437	3,353	3,206	3,620	3,720
	55,129	47,393	42,992	34,935	31,992	28,665
Equity**						
Policyholders' equity	-	2,694	2,631	2,365	2,146	1,976
Participating policyholders' equity	**47**	-	-	-	-	-
Shareholders' equity	**2,830**	-	-	-	-	-
	2,877	2,694	2,631	2,365	2,146	1,976
Premiums						
General Fund						
Participating insurance and annuities	**833**	778	639	563	509	450
Non-participating:						
Annuities	**1,584**	1,491	1,394	1,446	1,400	1,718
Individual life and health insurance	**808**	663	340	230	199	133
Group life and health insurance	**1,277**	927	826	769	626	572
Reinsurance	**202**	-	-	-	-	-
General insurance	**117**	121	116	114	104	72
	4,821	3,980	3,315	3,122	2,838	2,945
Segregated Funds	**2,737**	2,118	1,944	1,354	988	878
	7,558	6,098	5,259	4,476	3,826	3,823
GENERAL FUND OPERATING RESULTS						
Net investment income	**2,327**	1,964	1,842	1,734	1,653	1,480
Fee income	**393**	331	231	191	160	140
Commissions	**344**	244	203	178	146	130
General expenses	**723**	690	489	453	435	333
Net income before goodwill expense	**358**	150	286	230	181	112
Net income after goodwill expense	**320**	88	266	219	170	112
BUSINESS STATISTICS						
Life insurance in force						
- sum assured:						
Individual	**125,193**	83,339	75,210	64,479	58,902	49,099
Group	**245,115**	217,788	184,797	166,128	131,538	121,719
	370,308	301,127	260,007	230,607	190,440	170,818
Annuities in force						
- actuarial liabilities:						
Individual	**5,968**	5,507	5,300	5,347	5,216	4,842
Group	**8,528**	7,964	7,235	7,453	7,236	7,497
	14,496	13,471	12,535	12,800	12,452	12,339
Segregated Funds	**15,785**	13,165	11,399	7,550	6,137	4,322
	30,281	26,636	23,934	20,350	18,589	16,661

Notes:

The 1994 to 1998 comparative figures have been reclassified, where appropriate, to conform to the presentation adopted in 1999.

* *The 1998 and 1997 figures include 100% of the assets managed by INDAGO Capital Management Inc. in which the Company owns a 50% equity interest (100% in prior years). In 1999, INDAGO Capital Management Inc. merged with Laketon Investment Management Ltd. under the Laketon Investment Management Ltd. name. The 1999 figure includes 35% of the third party assets managed by Laketon Investment Management Ltd., which represents the Company's equity interest in the newly merged entity.*

** *The 1998 opening policyholders' equity has been restated to reflect the change in accounting policy for future income taxes. The 1997 and prior years' figures have not been restated for this change.*

Shareholder *dividends*

The declaration and payment of dividends by the Company are at the discretion of the Board of Directors. Commencing in the first quarter of 2000, the Board of Directors anticipates declaring dividends in a range that is similar to those paid by North American public life insurance companies. The Board of Directors currently intends that any such dividends will be paid quarterly out of shareholders' equity.

Corporate Governance

Canada Life Financial Corporation ("the Company") was incorporated in 1999 to hold the securities of The Canada Life Assurance Company ("Canada Life"). It carries on no business, and its only activities are related to its holdings of Canada Life. Its Board of Directors is identical to that of Canada Life. Thus the processes and structures to direct and manage the business and affairs of the Company, including appropriate corporate governance practices, are primarily instituted through Canada Life.

The Company recognizes that maintenance of high standards of corporate governance by its Board of Directors and management is essential to sound business operations throughout the corporate group. The Company is committed to the regular evaluation of internal controls to ensure that best practices are applied where necessary and appropriate. The Board leads this effort through the Corporate Governance Committee, which continually reviews developments in corporate governance. The Board is supported by vigilant management supervision, largely implemented through Canada Life, internal and external audits and examination by the Office of the Superintendent of Financial Institutions.

COMPOSITION OF THE BOARD

The Board of Directors has representation from across Canada, the United Kingdom and the United States. The Board is comprised of proven leaders in a diverse group of professions and industries. At December 31, 1999, there are 15 Directors on the Board. The Directors believe this to be a satisfactory number at present, for effective oversight of management due to the breadth and depth of appropriate experience and skill represented by the Board members. Only two Directors — the Chairman, President and Chief Executive Officer, and the former Chairman — are related to the Company.

Evaluation of potential candidates for election to the Board is spearheaded by the Corporate Governance Committee and, subject to regular assessments of qualifications, the normal retirement age for directors is 70. New recruits to the Board participate in an orientation and education program that includes individual meetings with members of senior management.

CHAIRMAN OF THE BOARD

The dual role of D.A. Nield as Chairman of the Board and Chief Executive Officer does not, in the opinion of the Board, impair its ability to function independently of management. This opinion is based on the high proportion of unrelated directors on the Board and the fact that the Board meets regularly without the Chairman present under the leadership of the Chairman of the Corporate Governance Committee.

COMPENSATION OF THE BOARD

Directors' compensation is annually benchmarked against the Company's Canadian peers. The Corporate Governance Committee makes recommendations to the Board on the amount and form of compensation. These procedures ensure that compensation is adequate and that it realistically reflects the responsibilities and risks involved in being an effective Director.

ASSESSMENT OF THE BOARD

Through the Corporate Governance Committee, a regular Director's Survey is taken, concerning corporate governance policies and practices. Input from the survey is used to update and refine the Company's corporate governance. The Corporate Governance Committee annually makes an assessment of the Board's effectiveness in fulfilling its responsibilities.

ADVISORS TO THE BOARD

The Board has established a system that enables the Board, Committees and individual Directors to engage an outside advisor at the expense of the Company in appropriate circumstances. The engagement of an outside advisor is subject to the approval of the Chairman of the Corporate Governance Committee.

ROLE OF THE BOARD

The Board of Directors is responsible for the stewardship of the Company. Its broad goal is to enhance long-term shareholder value, and it makes all major policy decisions for the Company. The Board's main functions are principally derived from the mandate of the Canada Life Board and include:

- reviewing and approving strategic plans and financial objectives and overseeing their implementation
- reviewing and considering the Company's principal risks and ensuring that they are appropriately managed
- ensuring the integrity and effectiveness of the Company's internal control and management information systems, and its shareholder communications policies
- reviewing and approving quarterly and annual financial statements
- reviewing and approving shareholder dividend policy

ROLES OF BOARD COMMITTEES

The Committees through which the Board fulfills certain of its responsibilities are identical to those of Canada Life. They are composed predominantly of outside directors and they perform the duties identified in formal mandates.

The Corporate Governance Committee addresses corporate governance matters pertaining to the Board of Directors and the shareholders. The Committee:

- recommends suitable candidates for election to the Board of Directors
- reviews and recommends improvements to the Company's approach to corporate governance matters, including terms of reference and membership of Board Committees, mechanics of Board and Committee meetings and compensation of the Board
- assesses the Directors on an ongoing basis

All but one member, the former Chairman of the Board of Canada Life, are unrelated to the Company.

The Audit Committee ensures that effective internal control procedures are in place and managed, and reviews, evaluates and approves those procedures. The Committee:

- reviews the quarterly and annual financial statements and returns of the Company
- reviews press releases on major developments before they are issued
- reviews and provides direction on major transactions and corporate projects
- discusses specific issues directly with internal and external auditors and the actuary as it considers appropriate

All members are unrelated to the Company.

The Human Resources Committee ensures that effective compensation policies are in place to retain and properly deploy high-caliber officers and employees. The Committee:

- sets the compensation and employee benefit policies of the Company
- assesses performance and reviews compensation of the Chief Executive Officer
- reviews all senior management appointments and compensation
- reviews management succession planning, organization and structures

All but one member, the former Chairman of the Board of Canada Life, are unrelated to the Company.

The Conduct Review Committee ensures that effective procedures are in place and are followed for dealing with related party transactions and other important aspects of corporate conduct. The Committee:

- reviews and monitors the procedures established by management for the review of transactions with related parties of the Company
- reviews management practices to ensure that material transactions with related parties are identified
- reviews and recommends to the Board procedures to identify and resolve conflicts of interest, and procedures to restrict the use of confidential information
- monitors the conflict of interest and confidential information procedures established by the Board

All members are unrelated to the Company.

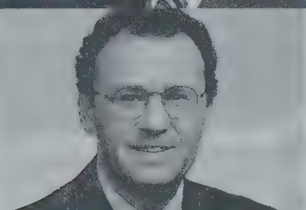
COMMUNICATION WITH SHAREHOLDERS

The Company is committed to equal and fair treatment of all shareholders, regardless of the size of their holdings. In addition to public disclosure documents that are filed with regulatory authorities, the Company regularly communicates with shareholders through its website, quarterly reports, its annual report and press releases, and other means.

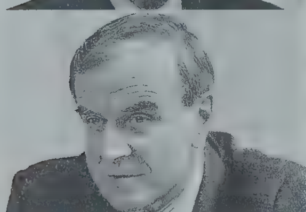
The Company responds promptly to all shareholder inquiries through its Investor Relations department and transfer agent. Suggestions from shareholders are forwarded to the appropriate person. Questions from the public are addressed additionally by the Corporate Communications department. The public can also communicate with the Company through its website.

Board *of Directors*

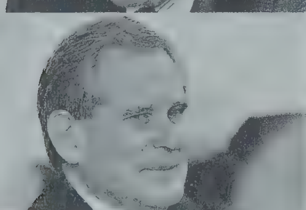
David A. Nield
Chairman of the Board,
President and Chief Executive Officer
Canada Life Financial Corporation
Toronto, Ontario, Canada



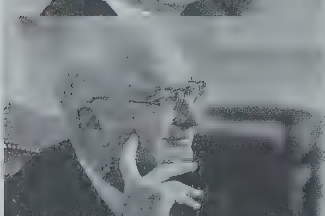
James C. Alfano
President & Chief Executive Officer
Stelco, Inc.
Hamilton, Ontario, Canada



George S. Bain
President and Vice-Chancellor
The Queen's University of Belfast
Belfast, Northern Ireland



Angus A. Bruneau
Chairman
Fortis Inc.
St. John's, Newfoundland, Canada



Edward H. Crawford
Former Chairman
The Canada Life Assurance Company
Toronto, Ontario, Canada

Graham R. Dawson
President
G. R. Dawson Holdings Limited
Vancouver, British Columbia
Canada

John R. Hall
Former Chairman
and Chief Executive Officer
Ashland Oil, Inc.
Ashland, Kentucky, U.S.A.

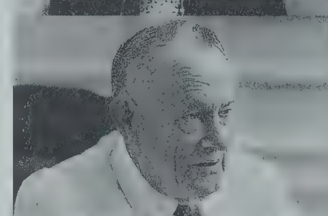
Michael L. Hepher
Former Chairman
Charterhouse, plc
London, England

Monique Jérôme-Forget
Member of the Quebec National Assembly
Riding of Marguerite-Bourgeoys
Montreal, Quebec, Canada

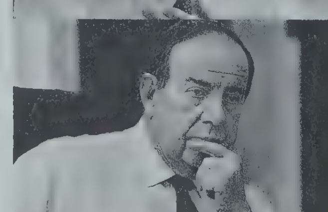
David W. Kerr
President and Chief Executive Officer
Noranda Inc.
Toronto, Ontario, Canada

David W. Lay
Corporate Director
Former Deputy-Chairman and Director
First Place Tower Inc.
Toronto, Ontario, Canada

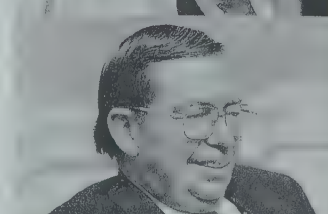
Diane E. McGarry
President,
North American General Markets Operations
Xerox Corporation
Stamford, Connecticut, U.S.A.



Cedric E. Ritchie
Corporate Director,
Former Chairman of the Board
and Chief Executive Officer
The Bank of Nova Scotia
Toronto, Ontario, Canada



T. Iain Ronald
Corporate Director,
Former Vice-Chairman
Canadian Imperial Bank of Commerce
Toronto, Ontario, Canada



Arthur R. A. Scace
Former Chairman
McCarthy Tétrault
Toronto, Ontario, Canada

HONORARY DIRECTORS

David W. Barr
Donald G. Campbell, F.C.A.
Nathanael V. Davis
Russell E. Harrison
John L. McCarthy
Beryl A. Plumptre
The Right Honorable
Robert L. Stanfield, P.C., Q.C.
William P. Wilder
Sir Donald Barron
John H. C. Clarry, M.B.E., Q.C.
Gerard Filion, C.C.
Laura L. Legge, Q.C.
Ellmore C. Patterson
Judson W. Sinclair
Richard L. Terrell

Summary *of attendance*

For the period August 11 – December 31, 1999*

Directors	Board Meetings	Audit Committee	Conduct Review Committee	Corporate Governance Committee	Human Resources Committee
James C. Alfano	7				
George S. Bain	6				
Angus A. Bruneau	8	1			
Edward H. Crawford	7				
Graham R. Dawson	8				
John R. Hall	5				
Michael L. Hepher	8				
Monique Jérôme-Forget	8	1			
David W. Kerr	6	1			
David W. Lay	8	1			
Diane E. McGarry	7	1			
David A. Nield	8				
Cedric E. Ritchie	7				
T. Iain Ronald	8	1			
Arthur R.A. Scace	8				
Total Number of Meetings Held	8	1	0**	0**	0**

* *August 11, 1999, was the date of the first Board meeting*
** *No other Committee meetings were held during 1999*

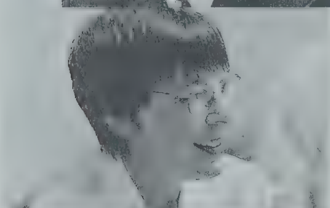
Board *committees*

As of December 31, 1999

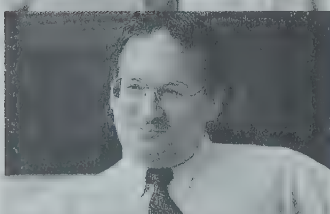
AUDIT	HUMAN RESOURCES	CONDUCT REVIEW	CORPORATE GOVERNANCE
Ronald (Chairman)	Ritchie (Chairman)	Jérôme-Forget (Chairman)	Scace (Chairman)
Bruneau	Crawford	Dawson	Bain
Jérôme-Forget	Hall	Hepher	Crawford
Kerr	Ronald		Dawson
Lay	Scace		McGarry
McGarry			

Senior *management*

William L. Acton
F.S.A., F.C.I.A.
Executive Vice-President and Director
Canadian Division



Diane Barsoski
B.Sc., B.Ed., M.Ed.
Vice-President and Director
Human Resources



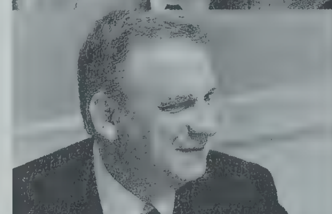
Ron Beettam
F.S.A., F.C.I.A.
Vice-President and Director
United States Division

Don A. Gallagher
M.Sc.
Managing Director
Irish Division

Ian Gilmour
B.Sc., F.F.A.
Vice-President and General Manager
United Kingdom Division

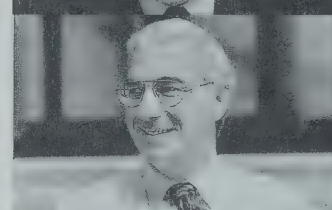
Joseph A. Gilmour
F.S.A., F.C.I.A.
Vice-President and Director
International & Reinsurance Division

Roy W. Linden
LL.B.
Vice-President, General Counsel
and Secretary



D. Allen Loney
F.I.A., F.C.I.A.
Vice-President and Chief Actuary

Robert W. Morrison
C.F.A.
Vice-President
and Chief Investment Officer



Robert M. Smithen
F.S.A., F.C.I.A.
Executive Vice-President
and Chief Financial Officer

Subsidiaries[1]

Canada Life Financial Corporation

The Canada Life Assurance Company
$2,865 (100%)

3605744 Canada Inc.
Toronto, Canada
$502 (100%)

CANADA

- Canada Life Casualty Insurance Company, Toronto, Canada — $55 (100%)
- Canada Life Mortgage Services Ltd., Toronto, Canada — $3 (100%)
- Sherway Centre Limited, Toronto, Canada — $185 (100%)
- Adason Properties Limited, Toronto, Canada — $5 (100%)

UNITED STATES

- Canada Life Insurance Company of America, Atlanta, Georgia, U.S. — $237 (100%)
- Canada Life Insurance Company of New York, Ardsley, New York, U.S. — $39 (100%)

INTERNATIONAL AND REINSURANCE

- Canada Life of Brasil Ltda., Rio de Janeiro, Brazil — $3 (100%)
  - Canada Life Pactual Previdência é Seguros S.A., Rio de Janeiro, Brazil — $3 (70%)

UNITED KINGDOM

- The Canada Life Group (U.K.) Limited, Potters Bar, U.K. — $883 (100%)
  - Canada Life Limited[2], Potters Bar, U.K. — $761 (100%)
    - Canada Life (U.K.) Limited, Potters Bar, U.K. — $122 (100%)
      - Canada Life Management (U.K.) Limited, Potters Bar, U.K. — $17 (100%)
      - Canada Life International Limited[3], Castletown, The Isle of Man — $82 (100%)
      - Canada Life Services (U.K.) Limited, Potters Bar, U.K. — $3 (100%)

REPUBLIC OF IRELAND

- Canada Life Irish Holding Company Limited, Blackrock, Republic of Ireland — $171 (100%)
  - Setanta Asset Management Limited, College Park House, Republic of Ireland — $2 (100%)
  - Canada Life Assurance (Ireland) Limited, Blackrock, Republic of Ireland — $169 (100%)

Notes:
$ value = consolidated book value (in millions of Canadian dollars)
% value = percentage of voting rights held
(1) Subsidiaries with a consolidated book value of less than $1 million are not shown above. Additionally, the Company's 35% equity interest in Laketon Investment Management Ltd. is not included.
(2) Formerly named The Canada Life Assurance Company of Great Britain Limited.
(3) Formerly named Albany International Assurance Limited.

Glossary *of terms*

When used in this document, the following terms have the meanings indicated below:

Annuity	A contract that provides for income payments to be made by the Company to a named person at regular (typically monthly) intervals, either for a specific period (an annuity certain) or for the lifetime of the annuitant (a life annuity).
Appointed Actuary	The Company's actuary appointed by the Company under The Insurance Companies Act (Canada).
Cash surrender value	The amount available in cash upon voluntary termination of a policy by its owner before it becomes payable either on death or maturity.
CIA	Canadian Institute of Actuaries.
Compulsory purchase payout retirement annuity	An annuity, which by law, must be purchased with the accumulated funds of a vested defined contribution pension plan.
Creditor life and disability insurance	Insurance protection for borrowers in the event of disability or death. This product is administered through the Company's group life and health operations.
Critical illness	Insurance purchased to mitigate the financial strain of surviving a critical illness which can include a lump sum benefit after diagnosis of one of the covered critical illnesses.
Deferred annuity	An annuity contract under which premiums are accumulated and the annuity income benefits begin more than one annuity period after the date on which the annuity is purchased.
Defined contribution plan	A pension plan that does not guarantee specific retirement benefits. The amount of the retirement benefit paid depends on the amount of these contributions and the contributions' earnings performance.
Direct sales consultant	A person authorized to sell insurance products.
Endowment	An insurance policy which provides a benefit if the insured dies during the endowment period and a benefit if the insured survives to the end of the endowment period.
Financial reinsurance	Reinsurance primarily designed to serve some financial or business purpose of one or both of the companies that are party to the agreement. For example, a financial reinsurance transaction can improve the profit or surplus of the ceding company or aid the company's tax planning.
Fixed annuity	An annuity contract under which the amount is accumulated by investing over a chosen term, entitling the customer to receive guaranteed amounts in the future.
General Fund	The assets and liabilities of the Company, excluding the Segregated Funds.
General insurance	Primarily automobile and property insurance, sold by The Canada Life Casualty Insurance Company.
GIC	A guaranteed investment contract.
Group health insurance	An insurance policy which provides coverage to a group of people in accordance with the terms of one master contract for various health related expenses, such as medical and dental expenses, and/or for income replacement in the event of a disability. This type of policy is most commonly obtained by employers to provide coverage for their employees.
Group life insurance	An insurance policy under which the lives of a group of people are insured in accordance with the terms of one master contract. This type of policy is most commonly obtained by employers to provide term life insurance for their employees.
Guaranteed annuity (fixed annuity)	An annuity contract under which the amount is accumulated by investing over a chosen term entitling the customer to receive guaranteed amounts in the future.
IFA	Independent financial advisor.
Immediate or payout annuity	A contract to receive a set stream of income which is not subject to market or investment risk. There are various payout options including life only, life with a minimum guaranteed payout period, joint and survivorship, which is lifetime payout for two annuitants and period certain only.

Individual life insurance	An insurance policy that is issued to insure the life of a named person or persons, rather than those of a group.
Investment grade bonds	Bonds that are classified with a credit rating of BBB and above as defined by Standard & Poor's.
MCCSR	Minimum Continuing Capital and Surplus Requirements. A risk-based formula, prescribed by OSFI to assess the adequacy of an insurance company's capital by comparison to the regulatory minimum.
Mutual company	An insurance company owned by its policy owners, in which there are no common shareholders and the Board of Directors is elected by the participating policyholders.
OSFI	Office of the Superintendent of Financial Institutions Canada. The federal agency responsible for regulating and supervising banks, insurance, trust and loan companies, federally regulated pension plans, and co-operative credit associations that are licensed or registered federally in Canada.
Participating mortgages	A mortgage in which a portion of the income earned is based on underlying cash flows of the property.
Participating policy	A policy which allows its holder to share in surplus distributions of a company in the form of dividends and to vote at meetings of policyholders.
Policy dividends	Dividends declared at the discretion of the Board of Directors and paid to participating policyholders.
Premium	The payment, or one of a series of payments, required by an insurer to keep an insurance policy in force.
Reinsurance	A type of insurance that one company, the ceding company, purchases from another company, the reinsurer, in order to transfer the risks on insurance policies that the ceding company issued.
REIT	Real Estate Investment Trust.
Retrocession	A transaction in which a reinsurer cedes a portion of its risks to another reinsurer or a parcel or unit of insurance that one reinsurer has assumed and that it cedes to another reinsurer.
Retrocessionaire	The reinsurance company that accepts the excess risk of another reinsurer.
Segregated Funds	A fund established by a life insurance company and consisting of assets that are separate and distinct from the other assets of the company. Subject to any minimum performance guarantee given by a company, the liability of the company under these policies may vary in amount depending upon the market value of the assets of the fund. By operation of law, the claims of the policyholder or policyholders in respect of whom the fund is maintained have priority over any other claim against the assets of the fund. To the extent that the assets of the fund are insufficient to cover any guarantee of performance given by a company, the residual claim would rank pari passu with the claims of general creditors. This business includes Canadian segregated annuity fund business, unit-linked life insurance and annuity business in the United Kingdom and Ireland, and variable annuity separate accounts and group pooled accounts in the United States.
Separate accounts	United States investment vehicle essentially the same as Segregated Funds in Canada.
Single premium product	A contract purchased with a single, lump-sum payment.
State guarantee fund assessments	Fees charged by a state mandated association formed by life and health insurance companies in the United States to cover the financial obligations of member companies that fail.
Term life insurance	An insurance policy under which the benefit is payable only if the insured dies during a specified period.
Underwriting	The process by which an insurance company assesses the risk inherent in an application for insurance prior to acceptance of the policy.
Unit-linked product	An insurance contract where a return is earned based on the investment performance of the underlying assets, which may be unit trust units or other invested assets.
Unit trust	The term used in the United Kingdom for an investment fund, similar to an open-end mutual fund.
Variable annuity or variable annuity product	An annuity contract under which premiums paid are invested in the Company's Segregated Funds and the value of which fluctuates with the investment experience of the assets of the Segregated Funds. At the time of payment of benefits to the annuitant, the annuitant can generally elect from a number of payment options, which provide either fixed or variable benefit payments.
Whole life insurance	Life insurance that remains in force during the insured's entire life, provided premiums are paid as specified. This type of insurance builds a cash surrender value.

CORPORATE *information*

CORPORATE ADDRESS:

Canada Life Financial Corporation
330 University Avenue
Toronto, Ontario, Canada
M5G 1R8
Phone: 416-597-1456
Internet: www.canadalife.com

DIVISIONAL ADDRESSES:

Canadian Division
330 University Avenue
Toronto, Ontario, Canada
M5G 1R8
Phone: 416-597-1456
Internet: www.canadalife.com

Canada Life Casualty Insurance Company
330 University Avenue
Suite 102
Toronto, Ontario, Canada
M5G 1R8
Phone: 416-597-2640
Internet: www.canadalife.com/casualty

United Kingdom Division
Canada Life Place
High Street
Potters Bar, Hertfordshire
England EN6 5BA
Phone: 44-1-707-651122
Internet: www.canadalife.co.uk

United States Division
6201 Powers Ferry Road
Suite 100
Atlanta, Georgia, United States 30339
Phone: 770-953-1959
Internet: www.canadalifeus.com

Republic of Ireland Division
Canada Life House
Temple Road
Blackrock, County Dublin
Republic of Ireland
Phone: 353-1-210-2000
Internet: www.canadalife.ie

International & Reinsurance Division
330 University Avenue
Toronto, Ontario, Canada
M5G 1R8
Phone: 416–597-1456

CHANGE OF ADDRESS OR CHANGE IN REGISTRATION:

Please write to the Company's transfer agent.

TRANSFER AGENT

Canada
Montreal Trust
151 Front Street West
8th Floor
Toronto, Ontario, Canada
M5J 2N1
Phone: 1-888-284-9137

United Kingdom
ComputerShare Services PLC
Caxton House
Redcliffe Way,
Bristol BS99 7NH
Phone: 0870-702-0164

United States
American Securities Transfer
& Trust, Inc.
P.O. Box 1596
Denver, Colorado
United States 80201
Phone: 1-888-284-9137

Republic of Ireland
ComputerShare Services
(Ireland) Ltd.
Heron House, Corrig Road
Sandy Ford Industrial Estates
Dublin 18
Phone: 01-216-3100

DIVIDENDS:

Payable quarterly at the discretion of the Board of Directors.

EXCHANGE LISTING:

The Toronto Stock Exchange
Ticker symbol: CL

SHAREHOLDER SERVICES:

Any inquiries other than change of address, shareholder dividends or change in registration of shares may be directed to Investor Relations.

INVESTOR RELATIONS:

Brian Lynch
Investor Relations Vice-President
330 University Avenue
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